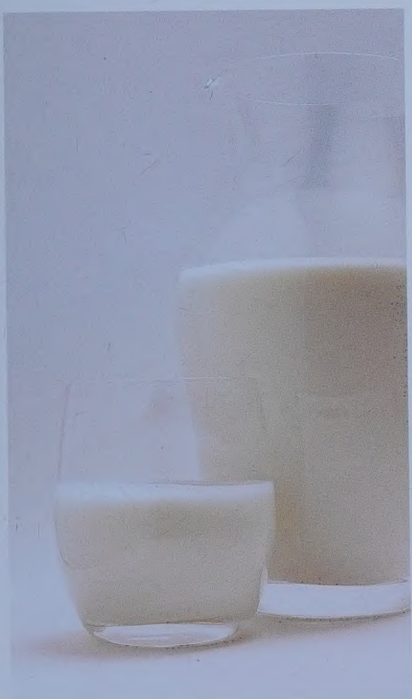
1954 Saputo 2004 50

2004 ANNUAL REPORT

Three generations *of passion and craftsmanship*

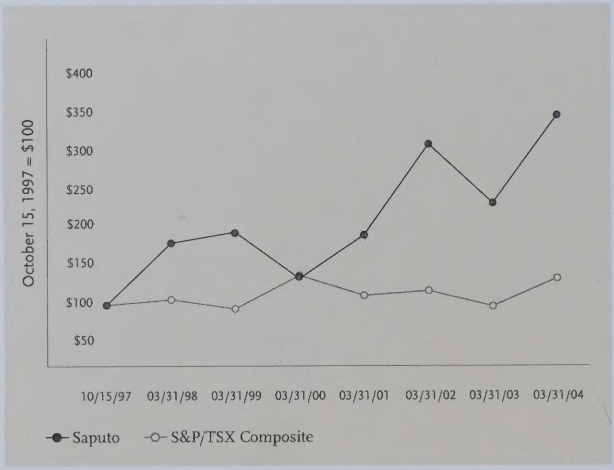


Saputo celebrates its 50^{th}

Founded in 1954, Saputo is celebrating, in 2004, 50 years of growth. During this time, the Company has maintained its family flavour and the vitality of a team whose passion is equalled only by its know-how... and its taste for good food!

Every day, our 7,500 employees proudly work in our 43 plants and distribution centres to produce, market and distribute a wide range of products that are found daily in grocery stores, in restaurants and in prepared meals. In so doing, they share their passion for a job well done and their commitment to quality. Well established in the dairy and grocery products sectors, we offer our products under the brand names of *Saputo, Stella, Frigo, Dragone, Armstrong, Caron, Cayer, Treasure Cave, Dairyland, Baxter, Nutrilait, La Paulina, Ricrem* and *Vachon*. We are the largest dairy processor in Canada, one of the largest cheese producers in North America and the third largest dairy processor in Argentina. Saputo Inc. is a public company whose shares are listed on the Toronto Stock Exchange under the symbol SAP. Visit our Web site at www.saputo.com.

Cumulative total return since initial public offering



All amounts in this report are in Canadian dollars, unless otherwise stated.

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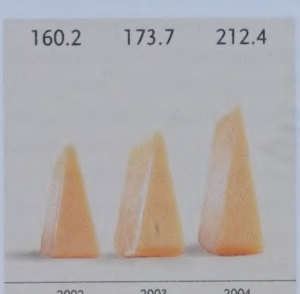
Highlights

Years ended March 31 (in thousands of dollars, except per share amount and ratios)	2004	2003	2002
Revenues			
Dairy Products Sector			
Canada and Other	$ 2,161,852	$ 2,017,383	$ 1,987,486
United States	1,240,954	1,212,810	1,282,555
	3,402,806	3,230,193	3,270,041
Grocery Products Sector	167,384	167,919	187,371
	$ 3,570,190	$ 3,398,112	$ 3,457,412
Earnings before interest, income taxes, depreciation and amortization (EBITDA)[1]			
Dairy Products Sector			
Canada and Other	$ 209,855	$ 199,561	$ 183,054
United States	160,887	120,069	133,996
	370,742	319,630	317,050
Grocery Products Sector	32,515	33,165	35,372
	$ 403,257	$ 352,795	$ 352,422
Net earnings	$ 212,365	$ 173,728	$ 160,161
Cash flows generated by operations	$ 287,572	$ 223,532	$ 199,606
Working capital	$ 297,202	$ 269,326	$ 258,908
Total assets	$ 2,069,548	$ 1,970,686	$ 2,046,675
Long-term debt (including current portion)	$ 371,911	$ 521,135	$ 675,125
Shareholders' equity	$ 1,156,829	$ 1,016,504	$ 900,588
Per share			
Net earnings			
Basic	$ 2.05	$ 1.68	$ 1.56
Diluted	$ 2.03	$ 1.66	$ 1.54
Dividends declared	$ 0.48	$ 0.40	$ 0.22
Book value	$ 11.15	$ 9.83	$ 8.73
Financial ratios			
Interest bearing debt/Shareholders' equity	0.39	0.53	0.78
Return on average shareholders' equity	19.5%	18.1%	19.4%

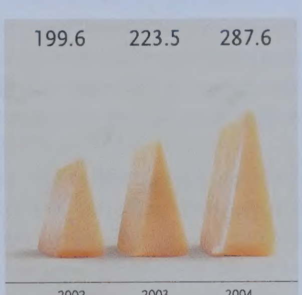
Revenues
(in millions of dollars)

EBITDA[1]
(in millions of dollars)

Net earnings
(in millions of dollars)



Cash flow generated by operations (in millions of dollars)



(1) **Measurement of results not in accordance with generally accepted accounting principles**
The Company assesses its financial performance based on its EBITDA, this being earnings before interest, income taxes, depreciation and amortization. EBITDA is not a measurement of performance as defined by generally accepted accounting principles in Canada, and consequently may not be comparable to similar measurements presented by other companies.

A History of Passion

1954 With the help of his parents, Giuseppe and Maria, and his family, Lino Saputo founded the company that bears his name with $500 to purchase equipment and a bicycle for deliveries.

1957 The Company builds its first major production facility in the Saint-Michel district of Montréal. This event coincides with a significant increase in popularity of pizza among North American consumers.

1960 During the 1960s, Saputo experiences substantial growth as the demand for its products increases.

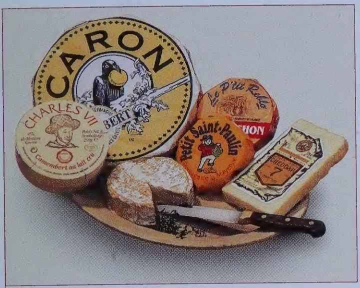
1970 During the 1970s, Saputo acquires several manufacturing operations and develops its national distribution network to keep up with its rapid growth, thereby becoming Canada's leading producer of mozzarella, primarily for the food-service segment.

1984 Saputo acquires a plant in Saint-Hyacinthe, Québec, which processes liquid whey resulting from its cheese production into value-added products such as lactose and whey protein.

1988 The Company establishes its first manufacturing presence in the United States by acquiring two cheese plants.

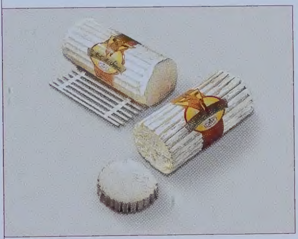
1989 Saputo completes its modern industrial complex in Saint-Léonard, in the greater Montréal area, to house its headquarters, its state-of-the-art production facilities, its national distribution centre, and its regional sales offices.

1954 1957 1960 1970 1984 1988 1989



1990 At the end of the 1990s, the Company completes several strategic acquisitions enabling it to broaden its production and geographic distribution. In 1996, Saputo acquires Fromages Caron Inc., an importer and distributor of fine cheeses in Québec.

2000 Saputo acquires Groupe Cayer-JCB Inc., a Québec-based company specializing in the production of European-type cheeses, such as havarti, brie, camembert, feta and goat milk cheese.



2003 To provide added value to its whey derivatives, Saputo enters into a partnership agreement in which it holds a 51% interest. California-based Gallo Protein produces and markets whey by-products.
Saputo positions itself as the leader in the blue cheese category in the US retail market segment by acquiring the activities related to the *Treasure Cave* and *Nauvoo* blue cheese brands.

1990 1997 1999 2000 2001 2003

STELLA
Quality Since 1923

1997 The Company completes its initial public offering in Canada. It triples in size and positions itself as one of the leading natural cheese producers in the United States by acquiring Stella Foods.

In order to enter the fluid milk market, Saputo acquires Crémerie des trois rivières in Québec.

1999 Saputo completes the acquisition of Culinar Inc., one of the main producers of snack cakes, fine breads, soups and cookies in Canada.

2001 Saputo becomes the leader in the Canadian dairy industry by acquiring Dairyworld Foods, a major Canadian producer of cheese, fluid milk and other dairy products.

2003 Saputo establishes itself outside North America by acquiring Molfino Hermanos S.A., the third largest dairy processor in Argentina.

Lino Saputo, Jr.
President and Chief Executive Officer

Lino Saputo
Chairman of the Board

Message to Shareholders

For Saputo, 2004 marks its 50th fiscal year. We have the great privilege of presenting the best financial results in our history. We have come a long way in the past 50 years. We are proud to present net earnings of $212.4 million for the fiscal year ended March 31, 2004, up 22.3% compared to last year. Total revenues for 2004 amounted to $3.570 billion, up 5.1% over the preceding year.

New heights same passion...

Fiscal 2004 was a constructive year

In the United States, we had to deal with the appreciation of the Canadian dollar and with changes in the average selling price per pound of cheese. We are proud of the increase in our sales volumes, which are up 5.9% this year. In May 2003, we entered into a partnership agreement to create Gallo Protein 2003, LLC, and also acquired the activities related to the *Treasure Cave* and *Nauvoo* blue cheese brands in the United States.

In Canada, we experienced organic growth while streamlining in certain areas, which will benefit the Company in the future. We also combined our Cheese Division (Canada) and Milk Division to create a single unit, the Dairy Products Division (Canada). This new division will enable us to undertake manufacturing, sales and marketing activities, as well as our logistical and administrative processes in a global and unified approach so as to continue to improve our Canadian cheese and fluid milk activities.

We made an initial breakthrough outside North America by acquiring Molfino Hermanos S.A., the third largest dairy processor in Argentina. We are very pleased with our initial experience, which shows the potential of this acquisition.

Finally, we completed the analysis of our Bakery Division and have concluded to devote all the attention required for its development.

Since March 30, 2004, Lino Saputo, Jr. holds the position of President and Chief Executive Officer of the Company following a transition which started in August 2003. Lino Saputo, Sr., who previously was Saputo's Chairman of the Board and Chief Executive Officer, will continue to act as Chairman of the Board. The existing team provides a solid base that will enable the Company to reach new heights.

For three generations, our employees have been dedicated to their work and have carried out their daily duties according to the highest standards. At a time when the Company is celebrating 50 years in business, we are convinced more than ever that we must be able to rely on our most important resource—human capital—in our daily search for better ways of doing things.

If, quarter after quarter and year after year we continue to perform as well as we have in the past, this is owed to the very essence of our foundations as a company. Our entrepreneurial approach encourages employees to personally contribute every day to the Company's success and gives them the room they need to express themselves and to grow.

It is due to this approach that we have become the efficient dairy processor and low-cost producer that we are today. To continue to grow as we have since the beginning, we have been able to rely on solid human, financial and technological resources. We take great pride in these assets.

At a time when we are assessing various development opportunities for the future, we firmly believe that our main challenge as a company is to preserve our corporate culture. This culture, which is defined daily by work excellence, respect and entrepreneurship, must be carried on year after year.

We will continue to apply the same financial discipline, both in managing the Company's daily operations and in potential acquisitions. We intend to continue developing our customer base in Canada while continuing our expansion, either through organic growth or by making targeted acquisitions in the dairy products sector.

In the United States, where the industry remains fragmented, we will continue to proactively examine strategic acquisitions of cheese operations. Such acquisitions will always have to be made according to the same criteria, namely that they must provide added value, complement our existing operations, and be made at a fair price.

Regarding our investment in Argentina, our intention is to establish a solid base in that country since we believe that we can benefit from opportunities on national and international markets in the long term.

We announced in February 2004, after the evaluation process of our Bakery Division begun in the summer of 2003, that we have decided to keep this division and to develop it in the best interest of our employees and shareholders. We now have a more global vision of this sector of activity and intend to concentrate on a greater penetration of certain targeted markets as well as a redeployment of our brands. We intend to spend approximately $20 million in controlled and targeted investments over the course of the next three years. These investments should be covered by additional profitability generated during this period. Following this three-year period, we expect that our Bakery Division will have achieved a greater penetration in all these markets.

Becoming a major world dairy processor remains Saputo's strategic orientation.

During the next months and years, our objective is therefore to position ourselves as a major world player in the dairy industry. To achieve our objective, it is also imperative that we remain abreast of the latest consumer trends, not only in the countries where we are already established, but also in those where we could establish ourselves.

We will continue to pay particular attention to world milk production volumes, per capita consumption of dairy products, and existing dairy infrastructures so as to target countries where we could develop both national and international markets.

Corporate Governance

The Company believes in the importance of sound corporate governance and considers that the interest held by its majority shareholder ensures that its interests are in line with those of the other shareholders. The Company's Board of Directors is composed of a majority of unrelated and independent directors and the two Board committees are composed solely of unrelated and independent directors. The positions of Chairman of the Board and President and Chief Executive Officer are separate. The Board of Directors has appointed an unrelated and independent lead director whose responsibilities include holding quarterly meetings of the unrelated and independent directors.

. . . and same craftsmanship

The Board has also developed a formal evaluation process for itself, its committees and the individual directors, and has adopted a code of ethics that applies to all directors, officers and employees of the Company. It has also adopted a new compensation policy for directors, which sets out rules for minimum shareholdings in the Company. In addition, the options granted to directors have been replaced by deferred share units.

The Audit Committee complies with new applicable legislation. In addition to reviewing its mandate, the Committee established policies for services that could be provided by its external auditors and other accounting firms, the hiring of its external auditors' employees and former employees and the handling of complaints of an accounting or financial nature. Please refer to the Annual Information Form and the Information Circular dated June 8, 2004 for additional information. The Company filed the certificate for the annual documents during the transition period for fiscal 2004 signed by the Chief Executive Officer and the Chief Financial Officer, even if its application to the Company will not be in force until its first quarter of fiscal 2005.

In closing, when we look back on our first 50 years, we must not forget our past and continuing support from our customers, product consumers, suppliers and shareholders. Our commitment to you is simple: in the years to come, we will continue to offer the level of excellence and quality that you have come to expect. We would also like to thank our directors for their sound advice throughout fiscal 2004.

On several occasions, we spoke of the importance for us of having a family spirit within our Company, a real source of pride that is characterized by the daily commitment of all our employees, without which we could not succeed. We are proud of their work and thank them for their constant support. We would also like to mention and recognize the contribution made by all the members of the Saputo family, who have played a direct or indirect role in making our Company flourish. Happy 50th Anniversary to everyone!

Lino Saputo
Chairman of the Board

Lino Saputo, Jr.
President and
Chief Executive Officer

June 8, 2004

Saputo at a Glance

Canadian and Other Dairy Products Sector

Revenues (%) per market segment

62% Retail
30% Foodservice
8% Industrial

Dairy Products Division (Canada)

Types of products
Mozzarella, cheddar, fluid milk, butter, blue, bocconcini, brick, brie, caciocavallo, camembert, colby, cream, flavoured coffee creamers, sour cream, farmer, feta, friulano, string cheese, cottage cheese, goat cheese, havarti, juices and drinks, milk powder, evaporated milk, lactose, margarine, monterey jack, munster, parmesan, pastorella, whey protein, provolone, ricotta, romano, swiss, trecce, dips, tuma, yogurt

Sales
- Diversified range of dairy products
- Leader in the pizzeria market
- Wide variety of specialty cheeses

Distribution
- Direct delivery in all regions of Canada
- The largest dairy product distribution infrastructure in Canada

Activities
- Producing 35% of all natural cheese manufactured in Canada
- Processing 20% of all fluid milk in Canada
- Excess production capacity of 20% for cheese activities
- Excess production capacity of 32% for fluid milk activities

Dairy Products Division (Argentina)

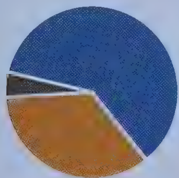
Types of products
Mozzarella, parmesan, milk powder, butter, cream, *dulce de leche* (caramelized milk), edam, emmenthal, gouda, goya, UHT milk, prato, reggianito

Sales
- Nearly 60% of sales are in the domestic market
- Cheese and milk powder exported to over 30 countries

Distribution
Independent distribution network comprising 180 distributors in 7 branches

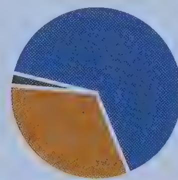
Activities
- Processing 5% of all milk in Argentina
- Excess production capacity of 17%

Revenues (%) per sector



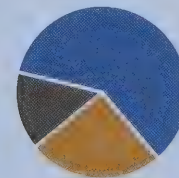
60%	Canadian and Other Dairy Products Sector
35%	US Dairy Products Sector
5%	Grocery Products Sector

Number of plants per sector



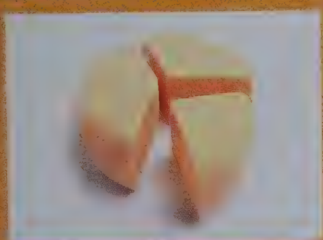
28	Canadian and Other Dairy Products Sector
14	US Dairy Products Sector
1	Grocery Products Sector

Number of employees per sector



4,500	Canadian and Other Dairy Products Sector
1,900	US Dairy Products Sector
1,100	Grocery Products Sector

US Dairy Products Sector



Sales volumes (%) per market segment

30%	Retail
42%	Foodservice
28%	Industrial

Cheese Division (USA)

Types of products
Mozzarella, string cheese, asiago, blue, whey protein concentrate, feta, fontinella, gorgonzola, kasseri, sweetened condensed milk, eggnog, condensed whey, whey powder, parmesan, provolone, ricotta, romano, swiss

Sales
- Large range of products and well-balanced sales segmentation

Distribution
- Independent regional and national distributors
- 3 distribution centres: East, Midwest, West

Activities
- Producing 6% of all natural cheese manufactured in the United States
- Excess production capacity of 6%

Grocery Products Sector

Revenues per market segment

Mainly retail

Bakery Division

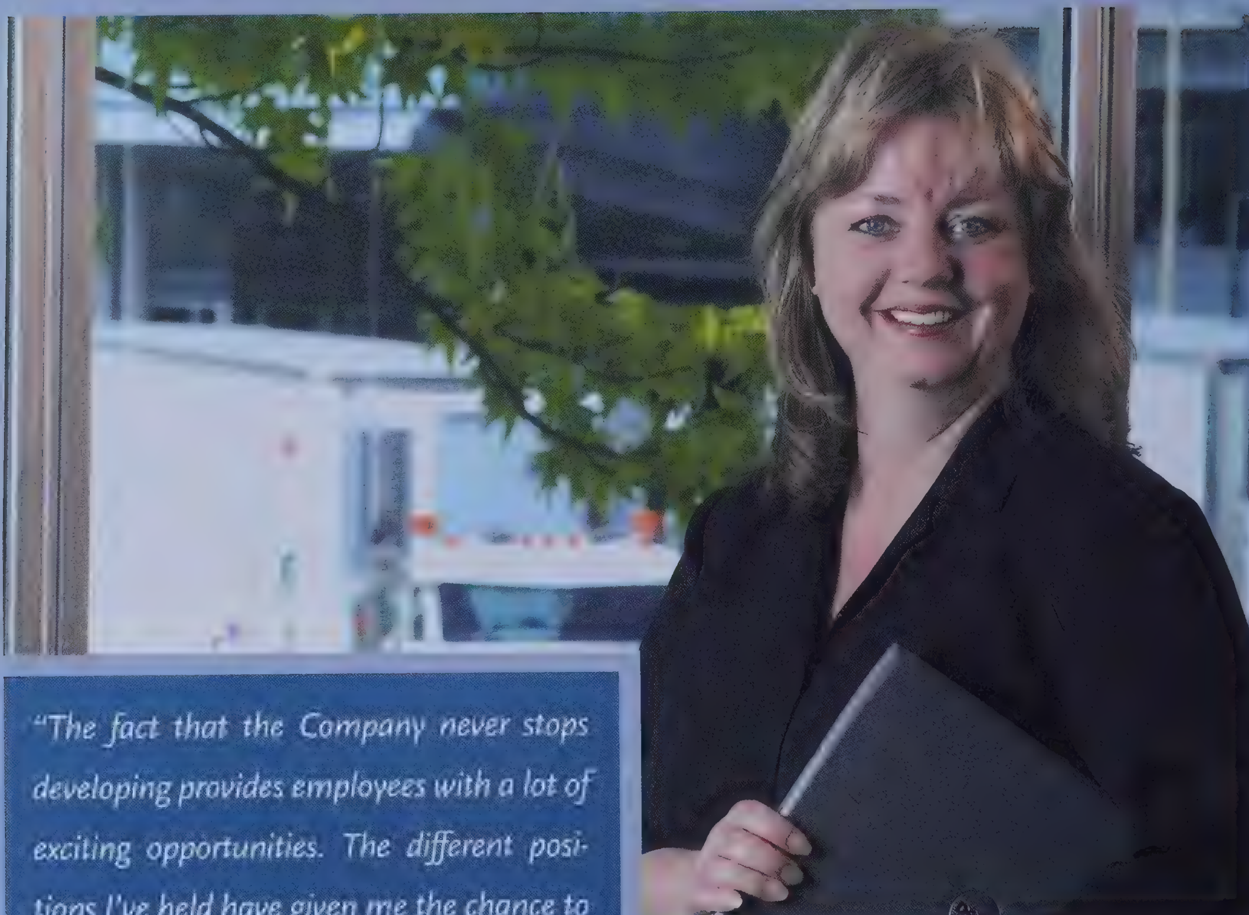
Types of products
Snack cakes, tarts, cereal bars

Sales
- Largest snack cake manufacturer in Canada and one of the leaders in the cereal bar market in Québec

Distribution
- Direct-to-store delivery

Activities
- Dominant market share in all regions of Canada
- Excess production capacity of 30%

Dairy Products Division (Canada)

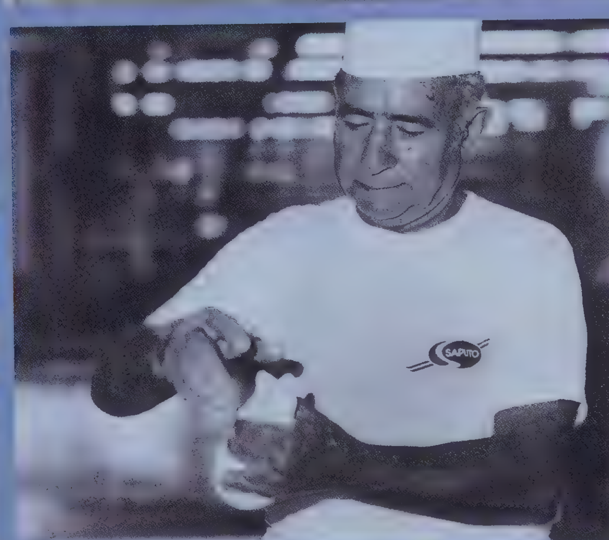


"The fact that the Company never stops developing provides employees with a lot of exciting opportunities. The different positions I've held have given me the chance to meet a lot of people all over Canada, and that's something I've always really enjoyed in my job."

Becky Pachmann
Burnaby office, British Columbia

"I've been with Saputo for over 20 years. A lot of things have changed in that time, including manufacturing methods. Nevertheless, as big as the Company has grown, the atmosphere on the job has stayed virtually the same. It's a working environment where you feel appreciated."

Joseph Facile Emmanuel
Saint-Léonard plant, Québec



Dairy Products Division (Argentina)

Dairy Products Division (Argentina)

"It's just a few months since Saputo acquired Molfino in Argentina, and already we've seen many changes. What I'm struck by is the degree of involvement and commitment on the part of management. The effect is stimulating, and it makes us feel we want to be part of the team and make our own contribution to the success of the Company."

Diego Cunotti
Rafaela plant, Argentina

Cheese Division (USA)

"When I think about our Company, there are two things that make me proud. First, our daily focus is all about the quality of the products. Second, as an employee, you feel like you are part of something bigger, like a true family."

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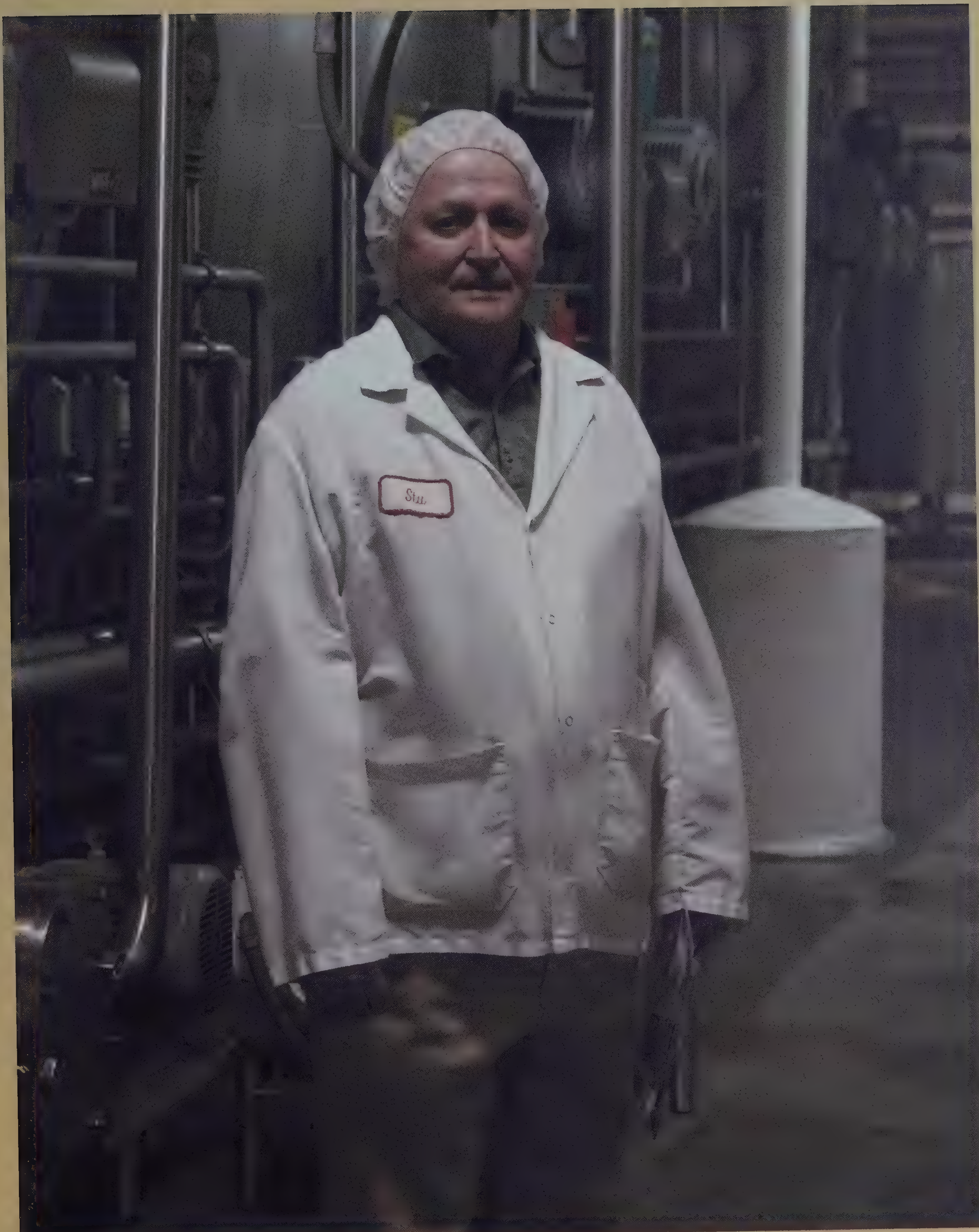
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Bibiane

Bakery Division

"When I'm working in production, the products that come off the line have to look good, taste good and be as inexpensive as possible. The way to achieve that result is through teamwork and through making sure there's good communication among the employees."

Bibiane Tardif
Sainte-Marie plant, Québec

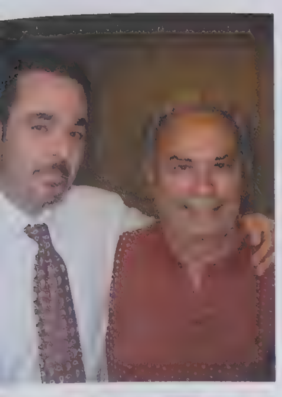
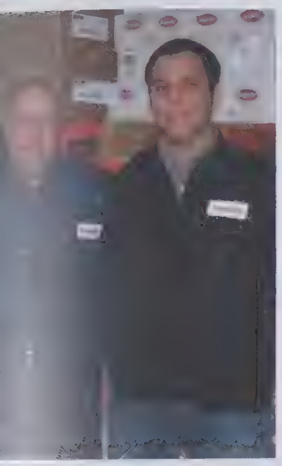
G e n e r a

t i o n s . . .


FROMAGE SAPUTO

t i o n s . . .

G e n e r a

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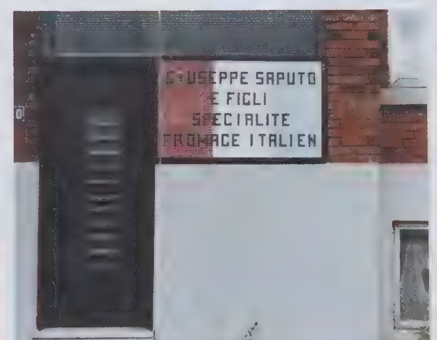
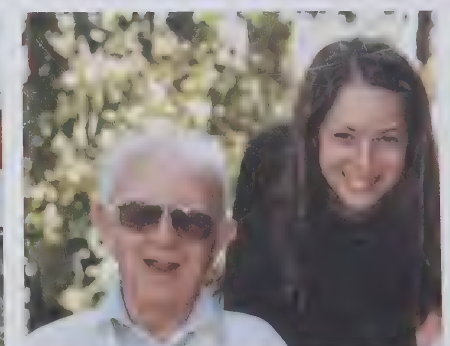
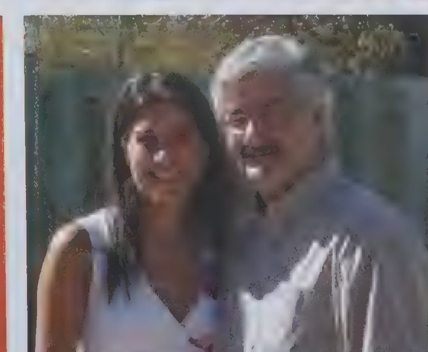




Management's Analysis

The goal of the present management report is to provide a better understanding of our activities and should be read while referring to our audited consolidated financial statements and the accompanying notes. In addition to containing an analysis of the year ended March 31, 2004, this report addresses any material element to be considered between March 31, 2004 and June 8, 2004, the date on which this report was approved by the Board of Directors of Saputo Inc. (the "Company" or "Saputo"). Additional information about the Company, including the Annual Information Form for the year ended March 31, 2004, can be obtained on SEDAR at www.sedar.com.

This disclosure document contains management's analysis on forward-looking statements. Caution should be used in the interpretation of management's analysis and statements, since management often makes reference to objectives and strategies that contain a certain element of risk and uncertainty. Due to the nature of our business, the risks and uncertainties associated with it could cause the results to differ materially from those stated in such forward-looking statements.

Global Overview

Already firmly established in North America, Saputo has also been operating in Argentina since November 2003. Our operations are carried out in 43 plants and numerous distribution centers employing approximately 7,500 employees. Saputo manufactures almost all of the products it commercializes.

Saputo is active in two sectors: dairy products, which accounts for 95.3% of consolidated revenues, and grocery products, with 4.7% of consolidated revenues.

Our Canadian and Other Dairy Products Sector consists of the Dairy Products Division (Canada) and the Dairy Products Division (Argentina). Our US Dairy Products Sector consists of the Cheese Division (USA). Saputo's dairy products are available in all segments of the food market: retail, foodservice and industrial. Saputo is the largest dairy processor in Canada, among the top five in the United States and the third largest in Argentina.

The **retail** segment, which accounts for 51.9% of the revenues of our Dairy Products Sector, consists of sales made to supermarket chains, independent retailers, warehouse clubs and specialty cheese boutiques. In supermarkets, our products are located in the dairy product aisle and at deli counters. Throughout the retail segment, our products are marketed under our own brand names as well as under private labels.

The **foodservice** segment, which accounts for 33.4% of the revenues of our Dairy Products Sector, consists of sales made to distributors of both specialty cheeses and complete product lines as well as to restaurants and hotels. In this segment, we market our products under our own brand names and under various private labels. In Canada, through our own distribution network, we also offer non-dairy products manufactured by third parties. We also produce dairy blends for fast-food chains.

The **industrial** segment, which accounts for 14.7% of the revenues of our Dairy Products Sector, consists of sales made to processors who use our products as ingredients to manufacture their products. We supply cheese to Canadian manufacturers of frozen pizzas and other frozen foods. In the United States, we supply cheese to numerous large food manufacturers.

We also produce by-products such as lactose, whey powder and whey protein from our Canadian and US cheese manufacturing activities. Through our Canadian industrial segment, we sell cheese, lactose, whey powder, ice cream mixes and whey protein to a vast array of clients in Canada, Europe, South America, Asia and Africa. From our operations in Argentina, we supply numerous clients located in over 30 countries, primarily with milk powder and cheese.

With a Canada-wide presence, our Grocery Products Sector manufactures and markets snack cakes, tarts and cereal bars through the Bakery Division. Its products are sold almost exclusively in the Canadian retail segment, primarily in supermarket chains, independent retailers, and warehouse clubs. The Bakery Division also has a small-scale presence in northeastern United States. Saputo is the largest producer of snack cakes in Canada and a leader in Québec's cereal bar market.

Revenues (%) per market segment
Dairy Products Sector

The goal of the present management report is to provide a better understanding of our activities and should be read while referring to our audited consolidated financial statements and the accompanying notes.

Financial Orientation

Saputo has earned a prominent position in the dairy processing industry in Canada, the United States, and now in Argentina. Establishing strong foundations is the basis of our business model and of our growth in the manufacturing, commercial and financial aspects of our business. In fact, our Company's development has always been designed around organic growth, that is, fully developing our assets before making any acquisitions.

Relying on a systematic approach, we constantly strive to grow our activities such that they create value for our employees and shareholders. Our disciplined and thorough approach has proven profitable and remains a cornerstone of our fundamental values. Furthermore, our financial strategy centers around establishing and then building upon strong financial performance, thereby giving us the financial flexibility so essential for growth.

Financial commitments are rigorously managed, as our goal is to keep debt levels below shareholders' equity at all times. In the context of acquisitions, however, our debt may be higher for a short period of time.

En route to becoming a world class dairy processor, Saputo will continue to apply this same financial rigor and phase-by-phase growth by reinvesting the results of its financial performance.

Elements to Consider when Reading Management's Analysis for Fiscal 2004

During fiscal 2004, we experienced excellent financial performance:

- Net earnings of $212.4 million, a 22.3% increase
- Earnings before interest, income taxes, depreciation and amortization (EBITDA)[1] of $403.3 million, up 14.3%
- Revenues of $3.570 billion, up 5.1%
- Cash flows generated by operations of $287.6 million, up 28.7%

Essentially, 2004's performance is the result of sustained improvements in sales volume as well as operational efficiency throughout the year. However, the results for 2004 were affected by certain elements, notably the rise of the Canadian dollar, certain rationalization costs, as well as cheese prices in the United States.

Specifically, the appreciation of the Canadian dollar in fiscal 2004 reduced net earnings by $9.2 million, EBITDA by $23.8 million and revenues by some $182 million.

During the year, rationalization costs reduced net earnings by $5.6 million.

Also during the year, the selling price per pound of cheese in the United States escalated from US$1.09 as at March 31, 2003 to US$2.09 as at March 31, 2004. The relationship between the average selling price per pound of cheese and the cost of our raw material, milk, was also favourable. In fact, these factors had a positive effect of approximately $36.9 million on EBITDA and of approximately $138 million on revenues.

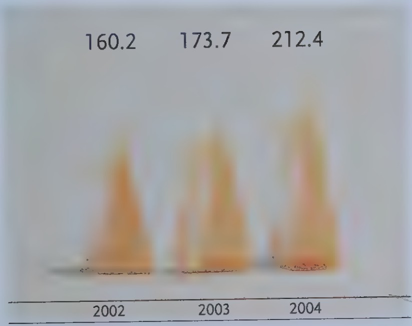
Overall, our Canadian and Other Dairy Products Sector experienced increased sales volumes. Our US Dairy Products Sector saw sales volume rise by 5.9%, representing approximately $72 million in additional revenues. During the year, we acquired three companies. Molfino Hermanos S.A. in Argentina, acquired on November 28, 2003, had a more pronounced impact on the Company's revenues, with revenues of approximately $44 million.

(1) **Measurement of results not in accordance with generally accepted accounting principles**
The Company assesses its financial performance based on its EBITDA, this being earnings before interest, income taxes, depreciation and amortization. EBITDA is not a measurement of performance as defined by generally accepted accounting principles in Canada, and consequently may not be comparable to similar measurements presented by other companies.

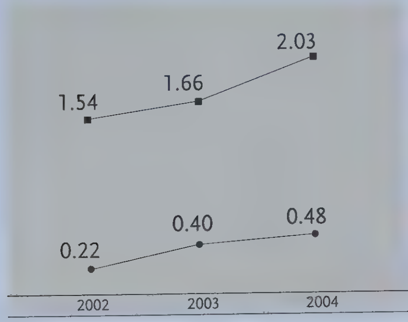
Selected Consolidated Financial Information

Years ended March 31 (audited) (in thousands of dollars, except per share amounts and ratios)	2004	2003	2002
Statements of earnings data			
Revenues — Dairy Products Sector			
Canada and Other	$ 2,161,852	$ 2,017,383	$ 1,987,486
United States	1,240,954	1,212,810	1,282,555
	3,402,806	3,230,193	3,270,041
Grocery Products Sector	167,384	167,919	187,371
	$ 3,570,190	$ 3,398,112	$ 3,457,412
Cost of sales, selling and administrative expenses			
Dairy Products Sector			
Canada and Other	$ 1,951,997	$ 1,817,822	$ 1,804,432
United States	1,080,067	1,092,741	1,148,559
	3,032,064	2,910,563	2,952,991
Grocery Products Sector	134,869	134,754	151,999
	$ 3,166,933	$ 3,045,317	$ 3,104,990
EBITDA — Dairy Products Sector			
Canada and Other	$ 209,855	$ 199,561	$ 183,054
United States	160,887	120,069	133,996
	370,742	319,630	317,050
Grocery Products Sector	32,515	33,165	35,372
	403,257	352,795	352,422
EBITDA margin (%)	*11.3%*	*10.4%*	*10.2%*
Depreciation of fixed assets			
Dairy Products Sector			
Canada and Other	29,854	29,697	27,970
United States	31,550	35,704	33,607
	61,404	65,401	61,577
Grocery Products Sector	4,634	5,488	6,510
	66,038	70,889	68,087
Operating income			
Dairy products Sector			
Canada and Other	180,001	169,864	155,084
United States	129,337	84,365	100,389
	309,338	254,229	255,473
Grocery Products Sector	27,881	27,677	28,862
	337,219	281,906	284,335
Interest on long-term debt	34,792	43,672	53,379
Other interest, net of interest income	1,218	(1,351)	(801)
Earnings before income taxes	301,209	239,585	231,757
Income taxes	88,844	65,857	71,596
Net earnings	$ 212,365	$ 173,728	$ 160,161
Net earnings margin (%)	5,9%	5,1%	4,6%
Net earnings per share	$ 2.05	$ 1.68	$ 1.56
Diluted net earnings per share	$ 2.03	$ 1.66	$ 1.54
Dividends declared per share	$ 0.48	$ 0.40	$ 0.22
Balance sheets data			
Total assets	$ 2,069,548	$ 1,970,686	$ 2,046,675
Long-term debt (including current portion)	$ 371,911	$ 521,135	$ 675,125
Shareholders' equity	$ 1,156,829	$ 1,016,504	$ 900,588
Statements of cash flows data			
Cash flows generated by operations	$ 287,572	$ 223,532	$ 199,606
Amount of additions to fixed assets, net of proceeds on disposal	$ 84,520	$ 66,531	$ 59,735

Net earnings
(in millions of dollars)



Net earnings per share (in dollars) ■
Dividends declared per share (in dollars) ●



Saputo's **consolidated revenues** amounted to $3.570 billion in 2004, up 5.1% compared to $3.398 billion posted in 2003.

Although the Company's sales volume grew in Canada—and even more so in the United States where sales volumes rose nearly 5.9%, the rise of the Canadian dollar in 2004 as compared to 2003 created a shortfall in revenues of nearly $182 million. The average selling price per pound of cheese on the US market, 21% higher than in 2003, increased revenues by about $138 million. In addition, the recent acquisition in Argentina contributed approximately $44 million to revenues between November 28, 2003 and March 31, 2004.

Earnings before interest, income taxes, depreciation and amortization stood at $403.3 million, a 14.3% increase compared to $352.8 million in 2003. EBITDA margins increased from 10.4% last year to 11.3% this year. The strong cheese market price condition in the United States in 2004 drove up EBITDA by approximately $36.9 million. Major increases in sales volume in the United States, combined with our improved operational efficiency, helped grow EBITDA in our US Dairy Products Sector by about $27.7 million. However, the rise of the Canadian dollar unfavourably affected EBITDA by about $23.8 million. In Canada, sales growth as well as our improved operations strengthened EBITDA by about $10 million, despite the fact that the dairy by-product market, combined with the appreciation of the Canadian dollar, had an unfavourable impact of about $2 million on dairy by-product exports. The Company incurred, throughout the year, some $7.8 million in rationalization costs when it closed certain manufacturing facilities. The Bakery Division's EBITDA remained relatively stable.

Depreciation expense totalled $66.0 million, down $4.9 million from the last fiscal year. This expense in 2004 includes a write-down of fixed assets of approximately $1 million following the shutdown of plants during the year. The decline in this expense is mainly attributable to the rise in the Canadian dollar compared to the same period last year.

Net interest expense amounted to $36.0 million, down $6.3 million compared to last year. Nearly half of this decline is attributed to the reduction of interest resulting from ongoing payments of long-term debt. The other portion of this decline owes to the effect the rise of the Canadian dollar has had on interest charges for debt in US dollars.

Income taxes were $88.8 million, for an effective tax rate of 29.5% compared to 27.5% in 2003. The higher rate is mainly attributable to the fact that, in 2004, a greater portion of our taxable earnings were generated in the United States, which were subject to higher tax rates than those in Canada.

For the year ended March 31, 2004, **net earnings** totalled $212.4 million, a 22.3% increase over 2003's net earnings of $173.7 million. A higher Canadian dollar, compared to last year, eroded net earnings by $9.2 million for the year, and rationalization expenses consumed another $5.6 million. Excluding these two factors, net earnings would have risen by 30.8% compared to fiscal 2003.

Information by Sector

Canadian and Other Dairy Products Sector

This sector is made up of our Dairy Products Division (Canada) and our Dairy Products Division (Argentina).

Revenues (Canadian and Other Dairy Products Sector)

Revenues from this sector closed out the year at $2.162 billion, a 7.2% increase over the $2.017 billion posted for the previous year. The Company produced approximately 35% of all natural cheese and 20% of all fluid milk produced in Canada. The Company is the third largest dairy processor in Argentina.

The $145 million increase in revenues in 2004 owes to the following factors: nearly $60 million was attributable to fluid milk activities in Canada, which rose 6.7% over the previous year; nearly $41 million was attributable to cheese activities in Canada, a 3.6% increase over the previous year; and approximately $44 million was attributable to our Dairy Products Division (Argentina), which contributed to revenues for 18 weeks in 2004 after being acquired on November 28, 2003.

The **Canadian cheese activities** were able to benefit from cheese exports for a nine-month period in fiscal 2003. However, these exports were no longer possible as of January 1, 2003 following a decision by the appeals panel of the World Trade Organization (WTO), and this resulted in a drop in revenues of approximately $24 million. Despite the aforementioned, cheese volumes still grew by about 1% during fiscal 2004. Overall, Canadian cheese activities generated additional revenues of approximately $35 million owing to increased prices as a result of an increase in the cost of milk as raw material.

As in fiscal 2003, we continued our brand-promotion efforts by, among other initiatives, publishing new issues of *Cucina etc.* magazine. *Cucina etc.*, a cooking and lifestyle magazine, includes recipes that feature our products. In addition, at the end of the year, we launched a television campaign to promote *Saputo* brand products.

In October 2003, we launched our string cheese product under the brand *Cheese Heads*, leveraging the popularity of this product in the United States. Still in an introductory phase in 2004, it had little impact on revenues.

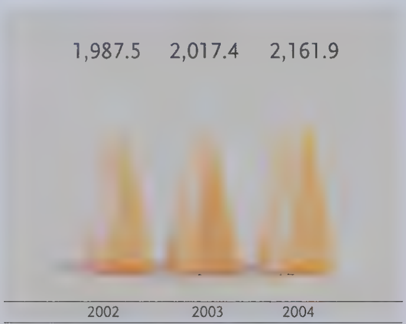
During fiscal 2004, we noticed that consumers are showing much greater interest in specialty cheeses. This category is enjoying steady growth but remains small in this sector.

Our sales in the **retail** segment also increased due to rising demand for private label products, consistent with consumer trends observed in the marketplace. The retail segment now accounts for 48.5% of the sales in our Canadian cheese activities, compared to 46% in the previous year.

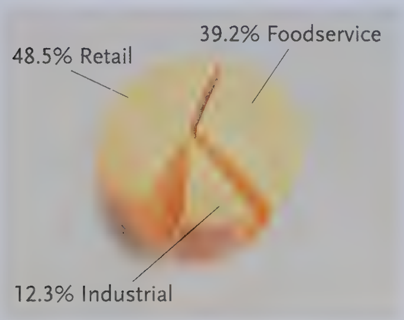
The **foodservice** segment also experienced greater sales in fiscal 2004, owing primarily to the addition of new clients and to higher prices caused by rising costs for milk as raw material. We continued to have a predominant presence in this segment, which generates 39.2% of our sales in the Canadian cheese activities, compared to 37% in the previous year.

The **industrial** segment accounts for 12.3% of sales from Canadian cheese activities, compared to 17% in the previous year. Overall, this segment's sales dropped in fiscal 2004 compared to fiscal 2003, the main reason being an absence of cheese exports. Fiscal 2003, however, included nine months of cheese exports. There was also a slight drop in sales volume nationally, but it was largely offset by increased sales in both the retail and foodservice segments.

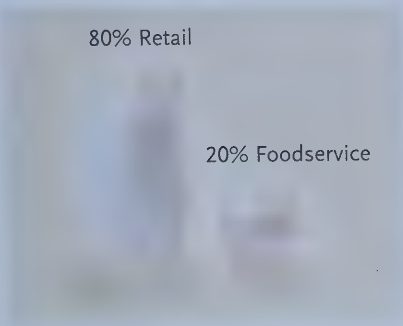
Revenues
Canadian and Other Dairy Products Sector
(in millions of dollars)



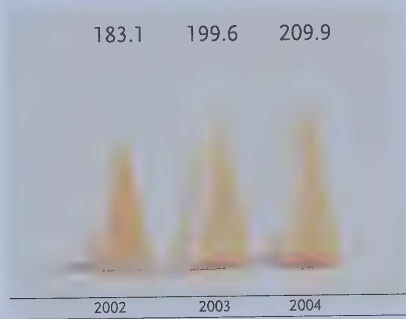
Revenues (%) per segment
Canadian cheese activities



Revenues (%) per segment
Canadian fluid milk activities



EBITDA
Canadian and Other Dairy Products Sector
(in millions of dollars)



Our **Canadian fluid milk activities** saw excellent growth in sales during fiscal 2004, generating $60 million in additional sales, up 6.7% over fiscal 2003. Throughout the year, significant effort was made to promote growth in specialized niches such as yogurt, sour cream, *Milk 2 Go* and *Lait's Go* flavoured milks, and flavoured coffee creamers, leading to growth in sales across all Canadian fluid milk activities of approximately 4%. This occurred despite the fact that fluid milk consumption remained stable on the Canadian market in 2004. Approximately $18 million of the increase in Canadian fluid milk activity revenue is attributable to higher selling prices caused by higher costs for milk as raw material.

The distribution of revenues remained unchanged, as the retail segment held 80% and the foodservice segment held 20%.

In addition, during fiscal 2004 we increased our market shares by nearly 1% in both Québec and Ontario. This expansion is partially due to the growth of clients of our Canadian fluid milk activities. In the Maritimes, several marketing initiatives were carried out to support the launch of new functional milk products such as *Calcium Extra, Protein Extra* and *Lactose Free*. We are relying on our *Baxter* and *Dairyland Plus* brands to grow our market share in this region.

We also started to produce fruit drinks under the *Sunny Delight*(1) license and market them throughout Canada. Since these activities began at the very end of the fiscal year, they had little impact on fiscal 2004 revenues.

The dairy products market in Canada remained stable and competitive throughout the year. In fact, the market displayed no trends that would warrant to manage differently with respect to client bases or pricing.

EBITDA (Canadian and Other Dairy Products Sector)

Earnings before interest, income taxes, depreciation and amortization (EBITDA) amounted to $209.9 million as at March 31, 2004, up 5.2% compared to the $199.6 million posted in fiscal 2003. The EBITDA margin slipped from 9.9% in 2003 to 9.7% in 2004.

During fiscal 2004, we implemented a series of rationalization measures in order to achieve greater operational efficiency. The measures led to the closure of cheese plants in Cookstown and Oakville (phase 2), Ontario, the closure of fluid milk plants in Calgary, Alberta, and Armstrong, British Columbia, and the sale of our manufacturing operation on Annacis Island in British Columbia. All these measures are aimed at improving our operational efficiency. The Company incurred a rationalization expense of $7.8 million. These measures had little effect on the EBITDA for fiscal 2004, as most of the rationalizations were finalized at the end of the year. However, these measures will translate into significant savings during fiscal year 2005 and thereafter.

During fiscal 2004, the milk by-products market combined with the rising Canadian dollar negatively affected the Company by an amount of approximately $2 million. Excluding the rationalization factors and the price of by-products, our EBITDA would have stood at $219.7 million, resulting in an EBITDA margin of 10.2% and representing $20.1 million in additional EBITDA over the previous year.

The Canadian and Other Dairy Products Sector performed well in 2004. The primary drivers of this performance were the rationalization measures undertaken during fiscal 2003 in our Canadian cheese activities, which were directly reflected in the increased EBITDA posted for fiscal 2004. We benefited from annual savings of approximately $7 million, an amount in line with our projections. Our specialty cheeses, which generate higher margins, also experienced increased sales volume during the year.

(1) Trademark used under license.

In our Canadian fluid milk activities, sales increased markedly during the year for products such as yogurt, flavoured milk, flavoured coffee creamers and sour cream—four specialized product categories that are more profitable. These product categories were supported by marketing efforts that required additional expenses of approximately $2.7 million.

The nearly 1% increase in market share in both Québec and Ontario, provinces in which we have less market strength, was also a contributing factor to fiscal 2004 performance. Several administrative moves aimed at consolidating services related to our Canadian fluid milk activities resulted in savings of approximately $1 million during the year.

As for our operations in Argentina, they have contributed to revenues since their acquisition, but have had little impact on EBITDA.

During the year, we made fixed asset investments, some of which were related to the rationalization of manufacturing units and others that were related to automation. Automation initiatives included automated bottle-casing and new bottling lines for flavoured milks, flavoured coffee creamers and fruit drinks, the latter being subject to licensing agreements concerning production and distribution. Owing to the rationalizations, between the beginning and end of fiscal 2004, our excess production capacity went from 30% to 20% in our Canadian cheese activities and from 40% to 32% in our Canadian fluid milk activities.

In addition, investments in our Tavistock plant over the previous two years enabled us to have a fully integrated operation in Ontario while increasing our capacity to transform by-products.

Outlook (Canadian and Other Dairy Products Sector)

The rising consumer interest in specialty cheeses should continue in line with the trend observed in 2004. We intend using our current market position to promote our specialty products and, as a result, draw more use from our manufacturing capacity.

The revitalization of certain brands through television commercials such as those that began airing in Québec at the start of fiscal 2005 will be spread nationally.

As for our Canadian fluid milk activities, EBITDA should benefit from annual savings derived from the rationalization measures implemented in 2004, savings evaluated at approximately $9 million annually. New, innovative products will be marketed to satisfy consumer needs. For example, the packages of certain product categories will be redesigned to enhance their visual appeal and functionality. Also, we will continue the program related to the implementation of milk vending machines as well as our efforts to grow our market share of fluid milk in both Québec and Ontario, provinces where we have limited presence. Furthermore, fiscal 2005 will benefit from a full year of Canada-wide licensed production and commercialization of *Sunny Delight*[1] beverages, which were introduced at the end of 2004.

We will continue to make investments in fixed assets that need to be replaced as well as in new technologies and automation projects. Our main challenge will be to fully integrate, by the end of this coming fiscal year, the former Milk and Cheese (Canada) divisions into a single operating unit. The entire organizational framework is already in place. Through this merger, we will be able to adopt a more global approach to our client base, and we will conduct several studies focused primarily on ways to better serve our clients. Whether it is the manner by which we transport merchandise or how we deliver customer service, improvements will be made.

Argentina, a country in which we have been operating since November 2003, represents an entirely new market for Saputo. Our acquisition in this country is unlike any of our prior acquisitions, where we were already active in the market and wanted to integrate the acquired operations into our own. In Argentina, we are looking to improve activities in order to establish a solid foundation from which we can draw long-term benefits and opportunities. In addition to having a corporate team that provides support, four members of our Canadian and US operations already hold key positions. They are working in conjunction with the local team, assisting with administration, manufacturing and sales operations, in order to improve efficiency and promote the corporate culture. Several moves will be made over the coming year. For one, we will be implementing our information systems so as to harmonize management tools. We will gain greater understanding of the markets, clients, products and methods, and adapt our methodologies accordingly. Finally, we will invest some $13 million to implement the technologies and methods that have driven our success. As such, fiscal 2005 in Argentina will be a year of transition and adaptation to be well positioned for the future.

(1) Trademark used under license.

US Dairy Products Sector

Our Cheese Division (USA), which comprises of our US Dairy Products Sector, demonstrated sound performance in fiscal 2004. The division experienced excellent sales growth as well as more favourable market conditions than those of fiscal 2003. We manufacture approximately 6% of all the natural cheese produced in the United States.

Over fiscal 2004, we continued to exhibit a good balance of revenues from our three market segments. Our retail and foodservice segment generated increased sales volumes during 2004, whereas the industrial segment experienced a decline.

Revenues (US Dairy Products Sector)

Fiscal 2004 revenues totalled $1.241 billion, an increase of $28 million or 2.3% over the $1.213 billion in revenues experienced in 2003. The Cheese Division (USA) saw sales volume grow 5.9%, which had a positive impact on revenues of approximately $72 million. The average selling price per pound of cheese during fiscal 2004 was US$1.39, a US$0.24 increase over the average US$1.15 in 2003. This increase had a positive impact of some $138 million on the revenues we generated in the United States. The appreciation of the Canadian dollar throughout the year negatively affected revenues by approximately $182 million.

The increase in sales volume for fiscal 2004 owes to two factors. First, dynamic growth in some product categories and the addition of new clients represent 71% of this increase. Second, the acquisition of the business associated with the blue cheese brands *Treasure Cave* and *Nauvoo* accounts for the remainder of the increase.

We offer products in three market segments: retail, foodservice and industrial. Our pricing, rebating and discounting practices in all three market segments were unchanged throughout the year, except for the following. Usually, our prices are based on the average selling price per pound of cheese as determined by the Chicago Mercantile Exchange (CME). For certain products in the industrial segment, the selling price of our products is now more closely tied to the cost of the milk as raw material.

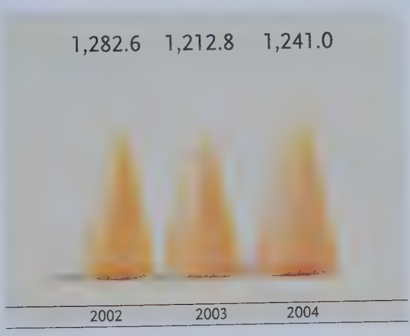
The **retail** segment accounts for 30% of our total sales volume in the United States. It grew 12.9% during 2004 due to contributions by firmly established brands such as *Frigo, Stella, Dragone, Frigo Cheese Heads* and our new brand, *Treasure Cave.* Our cheese products in snack formats are leaders in this segment. Such products include our string cheese, which continues to enjoy great success. Volumes increased approximately 26% in 2004, which matched growth for the entire category. The increase originates primarily from our branded products. Consumption of string cheese increased 25% during fiscal 2004, and *Frigo Cheese Heads* remains the most popular string cheese brand in the United States.

Greater sales in the retail segment is directly attributable to intensive point-of-sale promotions, greater support of our brands vis-à-vis consumers and a trend toward healthier diets. This trend gathered steam in the fourth quarter following the abundant media attention surrounding low-carbohydrate diets. As a result, the snack cheese category grew 36% in the fourth quarter of 2004 compared to the same period a year earlier, and we have exceeded this growth.

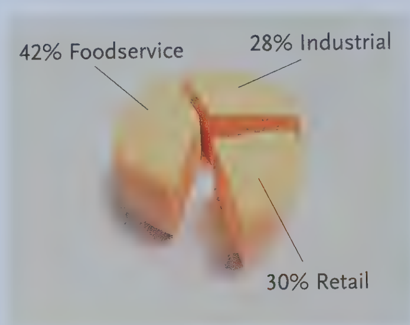
Other products that contributed to the growth of the retail segment include *Frigo Cheese Heads Mini Bars,* which were introduced during first quarter of fiscal 2004, and our ricotta product offering, which was relaunched during the third quarter of the same year. Combined, they accounted for approximately 6% of the increase in retail sales. Furthermore, the acquisition of activities related to the blue cheese brands *Treasure Cave* and *Nauvoo* helped strengthen our leadership position in this category.

The **foodservice** segment accounts for 42% of our total sales volume in the United States. Our sales volume grew 13.1% in 2004 compared to fiscal 2003 due to the addition of new clients and to efforts deployed in 2003 for our specialty cheeses. Pizza consumption remained strong, and we increased market penetration of our specialty cheeses within our client base in order to respond to consumers' increasing demand for cheeses on the menu. This helped us increase the volume of sales for most of our cheese categories during fiscal 2004. We were also able to strengthen our position among restaurateurs who offer other varieties of cheese as a result of the addition of new blue cheese activities, acquired in May 2003. These initiatives, which began last year, have proved beneficial, notably with our broadline distributors.

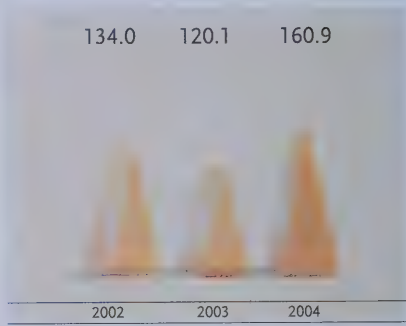
Revenues
US Dairy Products Sector
(in millions of dollars)



Sales volumes (%) per segment
US Dairy Products Sector



EBITDA
US Dairy Products Sector
(in millions of dollars)



We continued to focus efforts on our line of *Saputo Premium* cheeses, which are high-end products aimed at independent pizzerias and "mom and pop" establishments. We will continue in this direction with an objective of offering quality products to distributors and pizzerias, such that they may benefit from our services and expertise.

During fiscal 2004, we noticed some changes in the market place. Some competitors drove their production capacity above demand, the effect of which was downward pressure on prices, especially in the mozzarella category. Despite this competition, we managed to increase our sales volume in the foodservice segment. We will pursue growth opportunities by continuing to offer products that satisfy our clients' needs in terms of performance, quality and price.

The **industrial** segment represents 28% of our total sales volume in the United States. During 2004, sales volume for this segment declined 8.8% over 2003, mainly because we streamlined some less-profitable volumes. On the other hand, we continued to profit from gains made in the ricotta category for prepared meals, as our ricotta sales rose approximately 20% in 2004. We will continue to focus on growing this segment by forging long-term relationships with clients who appreciate the value of a functional, service-oriented and fairly priced product. By acquiring the business associated with the *Treasure Cave* brand, we were able to grow sales of blue cheese and serve new clients who produce salad dressings.

Products in the industrial segment also include whey by-products, sweetened condensed milk and eggnog. Prices of by-products on the international market continued to fall slightly during fiscal 2004. In the first quarter of 2004, however, we strengthened our position in the area of whey by-products through our interest in Gallo Protein 2003, LLC, which has helped add value to our whey by-products in California. In order to remain efficient, we will continue to focus our efforts on developing products and improving our technology.

EBITDA (US Dairy Products Sector)

During fiscal 2004, earnings before interest, income taxes, depreciation and amortization totalled $160.9 million, a $40.8 million or 34% increase over the $120.1 million posted in 2003. The 5.9% growth in sales volume for fiscal 2004, combined with our operational efficiency, earnings drawn from the added value of our whey by-products through our partnership in Gallo Protein 2003, LLC, and the contribution of the business associated with the *Treasure Cave* brand, had a positive impact on EBITDA of approximately $27.7 million. In addition, favourable market conditions in 2004 had a positive effect of $36.9 million on EBITDA. However, the appreciation of the Canadian dollar resulted in a $23.8 million shortfall in EBITDA.

The average selling price per pound of cheese for fiscal 2004 was US$1.39, a US$0.24 increase over the average of US$1.15 in 2003. This had a favourable impact on the absorption of fixed costs. In addition, the increase had a positive effect on the sales of inventory produced at lower costs for fiscal 2004. Over the past year, the relationship between the average selling price per pound of cheese and the cost of milk as raw material also proved advantageous. The slight decline in by-product prices during the year had virtually no effect on EBITDA.

The increase in volumes for fiscal 2004 allowed our manufacturing plants to further absorb their overhead, rendering them more efficient.

Outlook (US Dairy Products Sector)

Saputo is proud to produce quality cheeses at the best possible price. Having posted sales growth of around 5.9%, the Cheese Division (USA) once again demonstrated the appeal its products hold for consumers. With our steadfast determination to satisfy consumer needs, we will work relentlessly in the coming year in order to continue producing quality products, improving them, and developing new ones, both for the benefit of our clients and for consumers of our products. In terms of innovation, in the first quarter 2005, we will be launching our shaved parmesan product, which will be aimed at retail and food-service clients. In addition, because consumers are increasingly conscientious about healthy eating habits, we have recently launched a light string cheese product and will continue to promote these types of products throughout the following year.

Given the increased volumes and new product launches, we must ensure that we maintain sufficient manufacturing capacity. At the end of fiscal 2003, we were running at 93% capacity. At the end of fiscal 2004, given the increase in sales volumes, we launched a project designed to expand total capacity by approximately 12%. The project should be completed midway through 2005. Of the estimated $10 million needed to complete the project, $5.8 million have already been disbursed. We are currently running at 94% capacity. If necessary, the Company could add manufacturing capacity to its plants.

Saputo offers consumers dairy products that are the foundation of a balanced diet. Any change in economic conditions could influence consumers to change their eating habits. Thanks to our revenue streams, which are well balanced among three market segments, we are strongly positioned to adapt to such economic changes.

A significant rise in the Canadian dollar negatively affected our results for fiscal 2004. It is extremely difficult to predict fluctuations in US or Canadian currencies, as exchange rates can be affected by many factors.

The Cheese Division (USA) operates in an industry prone to frequent and often dramatic fluctuations in prices. Base prices are set according to daily transactions conducted at the CME. The CME acts as an auction market for certain commodity products where brokers represent buyers and sellers. Cheese is bought and sold on a daily basis, whereas butter is traded three days a week. The prices established at the end of a session serve as the reference price for most cheese and butter sales made in the United States. The stability of market prices depends on the capacity of supply to meet demand. Minor imbalances can often create major changes in price. Numerous factors such as climate, government policies, the price of feed, livestock health problems, economic conditions and consumption trends can therefore greatly influence dairy prices. History has shown that the dairy market can be more difficult to predict than the stock market, interest rates or exchange rates. During fiscal 2004, the CME's market for cheddar cheese blocks ranged from US$1.09 and US$2.09. Future fluctuations in cheese prices will therefore have either a negative or favourable effect on the Cheese Division (USA) results. Our continued success will depend on our ability to quickly and favourably react to changing market conditions as they arise.

Grocery Products Sector

The Grocery Products Sector, which consists of the Bakery Division, represents 4.7% of the Company's revenues.

Revenues (Grocery Products Sector)

Revenues for the Grocery Products Sector totalled $167.4 million for the fiscal year ended March 31, 2004, virtually the same level as the $167.9 million in revenues achieved in the previous fiscal year. Sales volumes in fiscal 2004 were up approximately 1%.

There was no material change in overall sales levels, either on a regional or brand basis. New products were introduced for the Christmas and Easter seasons, such as *Jos.Louis* and *May West* Easter eggs. Other products, such as carrot cake and Queen Elizabeth cake, became permanent additions to the line of products.

At year-end we also added a new *"Full Choco" Jos.Louis,* advertised in a televised promotional campaign targeting the teenage market.

The division maintained its dominant market share despite increasing competition.

With respect to the US market, there was no noticeable change in sales over the fiscal year. Product introductions in this market remain small-scale, carried out on a step-by-step basis, and in well-identified regions.

It is important to note that in fiscal 2004 we took a close look at Bakery Division operations with a view to taking a position on shaping future endeavours. During this period, few major initiatives were taken, and this accounts for the stability of revenues.

EBITDA (Grocery Products Sector)

EBITDA closed at $32.5 million on March 31, 2004, down slightly by $0.7 million from March 31, 2003. The EBITDA margin dropped from 19.8% in 2003 to 19.4% in 2004.

Compared to the same period last year, we faced some manufacturing cost increases during fiscal 2004. These increases were in raw materials and packaging as well as in salaries, and did not translate into increased selling prices of our products on a national scale. On the other hand, certain cost reductions should be noted, in terms of marketing and employee benefits, as a result of non-recurring expenses compared to the previous fiscal year. In addition, the capitalization of fixed assets, carried out throughout fiscal 2003 and fiscal 2004, has enabled us to improve our manufacturing efficiency by implementing the robotization of certain operations. Overall, all of these items essentially had almost no impact on EBITDA.

Outlook (Grocery Products Sector)

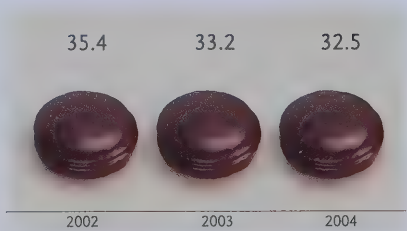
Fiscal 2004 was a time in which we reassessed the future of the Bakery Division. After having weighed various alternatives, we decided, last February, to maintain our commitment with respect to the division. Our analysis enabled us to confirm this division's growth potential.

With our decision to continue pursuing the activities of the Bakery Division, last February we announced controlled and targeted investments totalling approximately $20 million over a three-year period, investments that should be supported by the additional profitability generated during this period. These investments, which will begin at the end of fiscal 2005, should enable greater geographical penetration. In the interim, we will also explore alternatives in other market segments, such as the foodservice and industrial. Well positioned in the pastry market niche, we will mount a concerted effort to maximize utilization of manufacturing capacity that is underused by close to 30%. Through capital investments, we will continue certain manufacturing robotization programs. The outlook for fiscal 2005 does not suggest increased costs for ingredients and packaging. To recover certain cost increases incurred in fiscal 2004, we will assess, as required, the need to increase the selling prices of our products. In fiscal 2005, we forecast additional expenses of approximately $2 million related to the pension plan.

Although our products fall within the indulgence category, we are aware of the current consumer trends toward products with lower fat and trans-fat content, and are therefore focusing research and development on these areas in an effort to fully realize the potential of some of our brands and adequately meet consumer demand.

Revenues
Grocery Products Sector
(in millions of dollars)

EBITDA
Grocery Products Sector
(in millions of dollars)



Liquidity

Cash generated before changes in non-cash working capital items totalled $301.3 million for fiscal 2004, up 20% compared to $250.1 million in fiscal 2003. This increase is mainly attributable to the increase in net earnings for the year.

During fiscal 2004, non-cash operating working capital items used $13.7 million of the cash flows, compared to $26.6 million in 2003. This decline is primarily attributable to certain factors, including the appreciation of the Canadian dollar and the increase in the average selling price per pound of cheese in the US Dairy Products Sector in 2004.

In **investing activities,** the Company contributed $100.0 million to business acquisitions. Our last acquisition in Argentina, Molfino Hermanos S.A., was a $59.9 million investment. Last May, in the United States, we completed the acquisition of a 51% interest in Gallo Protein 2003, LLC, a company that manufactures and markets certain by-products, and we also completed the acquisition of the blue cheese business associated with the *Treasure Cave* and *Nauvoo* brands, all for $40.1 million.

The Company also added $90.4 million in fixed assets, of which nearly 74% went into the replacement of fixed assets. The remaining funds were used to implement new packaging lines and new technologies, as well as to expand and increase certain manufacturing capacities. We also disposed of unused fixed assets for an amount of $5.9 million following certain rationalizations. The largest amount was related to the sale of our manufacturing operation on Annacis Island, British Columbia.

The portfolio investment was reduced by $2.0 million following the receipt of dividends in excess of the Company's share in accumulated earnings.

As for **financing activities,** we repaid $110.1 million of long-term debt. Although the Company had strong cash-flow performance from operations during fiscal 2004, we used $63.9 million in bank loans to cover partially our investing activities.

We paid out $47.7 million in dividends during the last fiscal year.

Financial Resources

The Company's working capital stood at $297.2 million at March 31, 2004, compared to $269.3 million at the end of the previous fiscal year. Over the course of fiscal 2004, our interest-bearing debt-to-equity ratio improved, and is at 0.39 as at March 31, 2004 compared to 0.53 as at March 31, 2003.

The Company is in excellent financial condition. We do not foresee any additional working capital requirements and, over the next fiscal year, we intend to repay, at a minimum, the current portion of the long-term debt of $44.0 million, all in accordance with our contractual commitments. We also intend to repay amounts of bank loans, for a total of $82.4 million.

For fiscal 2005, we foresee making approximately $80 million in additions to fixed assets, with $53 million earmarked for new technologies and for added manufacturing capacity. The remainder will be devoted to replacing certain fixed assets. Of these capital investments, nearly $13 million relates to our activities in Argentina, newly acquired last November. In addition, we expect a fixed-asset depreciation expense in the amount of nearly $68 million. Saputo will finance additions made to fixed assets in fiscal 2005 from cash flows resulting from operations. As at March 31, 2004, the Company had no important commitments related to fixed-asset acquisitions.

The Company currently has at its disposal bank credit facilities of $241 million, $82.4 million of which are drawn. We can ensure growth primarily through significant cash flows generated by the Company and a currently undrawn bank credit facility of approximately $159 million. Should the need arise, the Company can make additional financing arrangements to pursue growth through acquisitions.

Balance Sheet

Compared to March 31, 2003, the main balance sheet items have varied as a result of certain factors such as the appreciation of the Canadian dollar, various business acquisitions made over the course of fiscal 2004, as well as the change in the selling price per pound of cheese in the US. The conversion rate of our US operation's balance sheet items in US currency was CND$1.3113 per US dollar as at March 31, 2004, compared to CND$1.4678 per US dollar as at March 31, 2003, effectively reducing the value of the affected balance sheet items. The conversion rate of our Argentinian operation's balance sheet items in Argentine pesos was CND$0.4570 per ARS as at March 31, 2004, compared to CND$0.4361 per ARS as at November 28, 2003, that is, at the time of acquisition. This increased the value of the affected balance sheet items. The various acquisitions made have otherwise added value to the receivables, inventories, fixed assets, goodwill, trademarks and accounts payable. The higher selling price per pound of cheese as at March 31, 2004 compared to March 31, 2003 accordingly increased the value of our receivables, inventories and accounts payable. From an operations perspective, as at March 31, 2004, our inventory levels were approximately $16 million higher than levels for the previous fiscal year. We also reduced the value of our portfolio investment by $2.0 million by applying dividends received in excess of the Company's share in accumulated earnings. The change in foreign currency translation adjustment listed under shareholders' equity is determined on the basis of the change in foreign exchange rates. The Company's total assets stood at $2.070 billion as at March 31, 2004, compared to $1.971 billion as at March 31, 2003.

Share Capital Information

Share capital authorized by the Company is comprised of an unlimited number of common and preferred shares. The common shares are voting and participating. The preferred shares can be issued in one or more series, and the terms and privileges of each class must be determined at the time of their creation.

	Authorized	Issued as at March 31, 2004	Issued as at June 1, 2004
Common shares	Unlimited	103,777,730	103,970,432
Preferred shares	Unlimited	None	None
Stock options issued and outstanding		4,745,580	5,494,605

Off-Balance Sheet Arrangements

For all of its operations, the Company has certain off-balance sheet arrangements, consisting primarily of leasing certain premises as well as certain lease agreements for equipment and rolling stock. These agreements are recorded as operating leases. Future minimum leases as at March 31, 2004 totalled $46.1 million.

The Company does not use derivative financial instruments for speculation. Saputo uses certain derivative instruments in specific situations. In the normal course of business, our Canadian operation imports certain products and our management of foreign exchange risk occasionally leads us to conclude certain foreign currency purchases in euros, of which the total amount as at March 31, 2004 was 500,000 euros.

Furthermore, in order to properly manage risks related to interest rate fluctuations, the Company uses interest rate swaps. As at March 31, 2004, the Company was party to an interest rate swap at a rate of 5.08%, covering an amount of $34.7 million of long-term debt. As at March 31, 2004, an amount of $556,000 would be required to settle this contract.

The Company periodically enters into forward contracts to protect itself against price fluctuations on certain commodities when it has secured a commitment to sell a finished product. As at March 31, 2004, the market value of these contracts is $2.6 million.

The Company's exposure to the financial instruments used is not affected by changing economic conditions, since these instruments are generally held until maturity.

Notes 15 and 16 to the consolidated financial statements describe the Company's off-balance sheet arrangements.

Guarantees

From time to time, the Company enters into agreements in the normal course of its business, such as service arrangements and leases, and in connection with business or asset acquisitions or disposals, agreements which by nature may provide for indemnification to third parties. These indemnification provisions may be in connection with breach of representations and guarantees and for future claims for certain liabilities, including liabilities related to tax and environmental issues. The terms of these indemnification provisions vary in duration.

Note 15 to the consolidated financial statements discusses the Company's guarantees.

Contractual Obligations

The Company's contractual obligations consist of commitments to repay its long-term debt as well as certain leases of premises, equipment and rolling stock.

Note 7 describes the Company's commitment to repay long-term debt, and Note 15 describes its lease commitments.

(in thousands of dollars)	Long-term debt	Minimum lease	TOTAL
2005	43,969	16,585	60,554
2006	50	8,941	8,991
2007	39,389	7,471	46,860
2008	17	5,093	5,110
2009	–	4,392	4,392
Subsequent years	288,486	3,600	292,086
Total	371,911	46,082	417,993

Related Party Transactions

In the normal course of business, the Company receives and provides goods and services from and to companies subject to significant influence by its principal shareholder. These goods and services of an immaterial amount are compensated by a counterpart equal to the fair market value.

Accounting Standards

Applied Standards

Stock Based Compensation and Other Stock Based Payments

In compliance with the recommendation of the Canadian Institute of Chartered Accountants (CICA) to use the fair value based method, the Company, effective April 1, 2002, has prospectively recorded stock based compensation in its results.

Impairment of Long-Lived Assets

Section 3063 of the CICA Handbook, *Impairment of Long-Lived Assets,* establishes standards for the recognition, measurement and disclosure of the impairment of long-lived assets by profit-oriented enterprises.

An impairment is recognized when the carrying amount of a long-lived asset exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition.

The Company has already adopted these new standards on a prospective basis since fiscal 2003.

Disclosure of Guarantees

The CICA Accounting Guideline AcG-14, *Disclosure of Guarantees,* requires entities to disclose information on given guarantees, regardless of the likelihood of the Company having to make payments under these guarantees.

This Guideline applies to interim and annual periods beginning on or after January 1, 2003. The Company has already applied this Guideline since fiscal 2003.

Disposal of Long-Lived Assets and Discontinued Operations

Section 3475 of the CICA Handbook, *Disposal of Long-Lived Assets and Discontinued Operations,* established standards for the recognition, measurement, presentation and disclosure of long-lived assets. It also establishes standards for the presentation and disclosure of discontinued operations, whether or not they include long-lived assets.

The requirements apply to disposal activities initiated, following the Company's commitment to pursue a plan, effective May 1, 2003. The Company prospectively adopted these new recommendations effective in fiscal 2004.

Future Standards

Asset Retirement Obligations

Section 3110 of the CICA Handbook, *Asset Retirement Obligations,* requires the recognition of liabilities for legal obligations, whether they are of a legal, prescribed, contractual or other nature, and normally when these obligations arise. The liability's fair value is initially measured and the related costs are capitalized in the carrying amount of the fixed asset in question. The asset retirement cost is amortized in the income statement using a systematic and rational method. This recommendation should not have a significant impact on the Company's future results. Section 3110 applies to fiscal years beginning on or after January 1, 2004.

Hedging Relationships

The CICA Accounting Guideline AcG-13, *Hedging Relationships,* specifies the circumstances in which hedge accounting is appropriate, and it examines in particular the identification, documentation, designation and effectiveness of hedge accounting, as well as the discontinuance of hedge accounting.

The Guideline applies to hedging relationships in effect in fiscal years beginning on or after July 1, 2003. Earlier application is encouraged.

The Company estimates that the application of this new standard will not have a significant effect on its financial statements.

Critical Accounting Policies and Use of Accounting Estimates

The preparation of consolidated financial statements in accordance with generally accepted accounting principles requires management to make estimates. These estimates are established on the basis of previous years and management's best judgment. Management continually reviews these estimates. Actual results may differ from those estimates. The following section establishes the main estimates used in preparing the consolidated financial statements of Saputo Inc.

Fixed Assets

In order to allocate the cost of fixed assets over their useful lives, estimates of the duration of their useful lives must be carried out. The cost of each fixed asset will then be attributed over the duration of its useful life and amortized year after year on this basis.

Portfolio Investment

The portfolio investment is recorded at cost. The Company carries out an annual valuation to ensure that the fair value of the investment is not lower than the carrying amount. To calculate an estimated fair value, the Company uses the company's EBITDA by applying to it a multiple based on comparable industry standards. If the portfolio investment undergoes a decline in value that is permanent, its carrying amount would be written down to account for this decline in value.

Goodwill

The new standards require that goodwill no longer be amortized, and that an impairment test be performed annually or more frequently when events occur or circumstances arise that could indicate a reduction in its fair value. To determine any decline in value, each of the respective accounting units are required to undergo an assessment. The Company's assessments are based on multiples for Saputo and for the industry. These multiples are applied to EBITDA and net assets. The Company applies this method consistently.

Stock Based Compensation

The Company uses the fair value based method to expense stock based compensation. With this method, the Company records a compensation cost over the vesting period of the options granted. The expected useful life of options used for calculating the fair value of options is based on management's experience and judgment. The expected useful life has not changed since last fiscal year.

Pension Plans

The Company offers and participates in defined contribution pension plans of which close to 82% of its active employees are members. The net pension expenditure under these types of plans is generally equal to the contributions made by the employer. The Company also participates in defined benefit pension plans of which the remaining active employees are members. The cost of these pension benefits earned by employees is actuarially determined using the projected benefit method prorated on services and using management's assumptions bearing on, among other things, the discount rate, expected return on plan assets, rates of compensation increase and the retirement age of employees. All of these estimates and assessments are formulated with the help of external consultants.

The discount rate is determined on the basis of the effective rates of return on high-quality long-term corporate bonds, as required by the adjusted standard, to account for the duration of plan liability. The rate was downwardly adjusted last year from 6.75% to 6.25%, effective December 31, 2003.

We established the expected average return on invested assets at 7.9% given the type and combination of these assets. This assumption is deemed reasonable and is supported by our external consultants.

The compensation growth rate was set at 3.5% over the long term, accounting for estimated future inflation rates.

The Company also offers a post-retirement medical benefit program. For the purposes of assessing costs related to this program, the hypothetical annual growth rate of medical costs was set at between 5.5% and 7% for fiscal 2005 and, based on the assumptions used, these rates should gradually decline to reach 5.3% in 2007 and subsequent years.

Any change in these assumptions or any plan experience that differs from the expected entails actuarial gains or losses with respect to expected results. If these gains or losses exceed 10% of the maximum of the asset or liability of the plans, they are amortized over the expected average remaining service life of the group of employees participating in the plans, in compliance with CICA recommendations.

The table below presents a sensitivity analysis of the key economic assumptions used to measure the impact on defined-benefit pension obligations, on other employee future benefit obligations and on net expenditure. This sensitivity analysis must be used with caution, as its results are hypothetical, and variations in each of the key assumptions could turn out not to be linear. The sensitivity analysis should be read in conjunction with Note 14 of the Consolidated Financial Statements. The sensitivity of each key variable has been calculated independently of the others.

Pension plan assets are held by several independent trusts, and the average composition of the overall portfolio as at December 31, 2003 was 2% in cash and short-term investments, 44% in bonds and 54% in shares of Canadian, US and foreign companies. In the long term, we do not expect any major change to this asset allocation.

For defined-benefit plans, actuarial valuations were performed in December 2002 and 2003, covering all obligations with respect to this type of plan. In light of these valuations, a solvency deficiency of $20 million was posted on December 31, 2003. This deficiency is primarily due to an increase in plan liabilities resulting from a sharp decline in the discount rate prescribed by provincial legislation on pension plans, and from insufficient asset returns at the time of the evaluation. In accordance with this provincial legislation, an additional contribution is required for the next five years to pay off this deficiency. An additional payment of $4.6 million was made in fiscal 2004. The additional payment required for fiscal 2005 will be $5.9 million, that is, $1.3 million more than the previous year.

Future Income Taxes

The Company follows the liability method of accounting for income taxes. Deferred income tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. As a result, a projection of taxable income is required for those years, as well as an assumption of the ultimate recovery or settlement period for temporary differences. The projection of future taxable income is based on management's best estimates and may vary from actual taxable income. On an annual basis, the Company assesses its need to establish a valuation allowance for its deferred income tax assets. Canadian, US and international tax rules and regulations are subject to interpretation and require judgment on the part of the Company that may be challenged by the taxation authorities. The Company believes that it has adequately provided for future tax obligations that may result from current facts and circumstances. Temporary differences and income tax rates could change due to fiscal budget changes and/or changes in income tax laws.

Sensitivity Analysis
Pension Plans and Other Employee Future Benefits

	Pension plans		Other employee future benefits	
(in thousands of dollars)	Accrued benefit obligations	Net expense	Accrued benefit obligations	Net expense
Anticipated rate of return on assets				
Effect of an increase of 1%	N/A	(1,712)	N/A	N/A
Effect of a decrease of 1%	N/A	1,712	N/A	N/A
Discount rate				
Effect of an increase of 1%	(16,063)	(926)	(2,036)	(822)
Effect of a decrease of 1%	17,838	1,305	2,498	424
Assumed growth rate of overall healthcare costs				
Effect of an increase of 1%	N/A	N/A	2,080	279
Effect of a decrease of 1%	N/A	N/A	(1,749)	(231)

Risks and Uncertainties

Product Liability

Saputo's operations are subject to certain dangers and risks of liability faced by all food processors, such as the potential contamination of ingredients or products by bacteria or other external agents that may accidentally be introduced into products or packaging. Saputo has quality control procedures in place within its operations to reduce such risks and has never experienced any material contamination problems with its products. However, the occurrence of such a problem could result in a costly product recall and serious damage to Saputo's reputation for product quality. We maintain product liability and other insurance coverage that we believe to be generally in accordance with the market practice in the industry.

Supply of Raw Materials

Saputo purchases raw materials that may represent up to 85% of the cost of products. It processes raw materials into the form of finished edible products intended for resale to a broad range of consumers. Thus, variations in the price of foodstuffs can influence Company results upwards or downwards, and the effect of any increase of foodstuff prices on results depends on the ability of the Company to transfer those increases to its customers, and this in the context of a competitive market.

US and International Markets

The price of our main raw material—milk—and the price of our cheese products in the United States and Argentina and by-products on international markets are based on market supply and demand forces. The prices are tied to numerous factors, such as the health of the economy and supply and demand levels for dairy products in the industry. Price fluctuations may affect the Company's results. The effect of such fluctuations on our results will depend on our ability to implement mechanisms to reduce them.

Competition

The food processing industry in North America is extremely competitive. Saputo participates in this industry primarily through its dairy operations. The Canadian dairy industry is highly competitive and is comprised of three major competitors, including Saputo. In the United States, Saputo competes in the dairy industry on a national basis with several regional and national competitors, and this is also true of our activities in Argentina. Our performance will be dependent on our ability to continue to offer quality products at competitive prices, and this applies to all the countries in which we operate.

Consolidation of Clientele

During the last few years, we have seen important consolidation in the food industry in all market segments. Given that we serve these segments, the consolidation within the industry resulted in a decrease in the number of clients and an increase in the relative importance of some clients. Our ability to continue to service our clients in all the markets that we serve will depend on the quality of our products, services and the prices of our products.

Environment

Saputo's business and operations are subject to environmental laws and regulations. We believe that our operations are in compliance, in all material aspects, with such environmental laws and regulations, except as disclosed in our Annual Information Form dated June 8, 2004 for the year ended March 31, 2004. Any new environmental laws or regulations or more vigorous regulatory enforcement policies could have a material adverse effect on the financial position of Saputo and could require significant additional expenditures to achieve or maintain compliance.

Consumer Trends

Demand for our products is subject to changes in consumer trends. These changes may affect the Company's earnings. In order to constantly adapt to these changes, the Company innovates and develops new products.

Financial Risk Exposures

Saputo has financial risk exposure to varying degrees relating to interest rates or to exchange rates related to United States and the Argentine currencies. While we use interest rate swaps to manage our interest rate exposure, we do not fully hedge against all these financial risk exposures, and there can be no assurance that such exposures will not affect our profitability. Approximately 35% of our sales are realized in the United States; therefore, we are exposed to currency exchange fluctuations. Cash flows from US operations constitute a natural hedge against the exchange risk related to debt expressed in US dollars. To minimize the effect of interest rate fluctuations on the results of the Company, Saputo has utilized swaps for 78.6% of its long-term debt in Canadian currency. The debt in US currency is at a fixed rate throughout its term. Overall, 97% of the total long-term debt is protected from interest rate fluctuations.

Regulatory Considerations

The production and distribution of food products are subject to federal, state, provincial and local laws, rules, regulations and policies and to international trade agreements, all of which provide a framework for Saputo's operations. The impact of new laws and regulations, stricter enforcement or interpretations or changes to enacted laws and regulations will depend on our ability to adapt and comply. We are currently in compliance with all important government laws and regulations and maintain all important permits and licenses in connection with our operations.

Tariff Protection

Dairy-producing industries are still partially protected from imports by tariff-rate quotas which permit a specific volume of imports at a reduced or zero tariff and impose significant tariffs for greater quantities of imports. There is no guarantee that political decisions or amendments to international trade agreements will not, at some time in the future, result in the removal of tariff protection in the dairy market, resulting in increased competition. Our performance will be dependent on our ability to continue to offer quality products at competitive prices.

Sensitivity Analysis of Interest Rate and US Currency Fluctuations

The portion of the long-term debt covered by fixed interest rates equals 97%. The used portion of the bank credit facility is subject to interest rate fluctuations, and was not being protected as of March 31, 2004. A 1% change in the interest rate would lead to a change in net earnings of approximately $0.588 million, based on the $82.4 million in bank loans as of March 31, 2004.

Canadian-US currency fluctuations may also affect earnings. Appreciation of the Canadian dollar compared to the US dollar would have a negative impact on earnings. Conversely, a decrease in the Canadian dollar would have a positive impact on earnings. During the year ended March 31, 2004, the average US dollar conversion was based on CND$0.74 for US$1.00. A fluctuation of CND$0.01 would have resulted in a change of approximately $0.940 million in net earnings, $2.5 million in EBITDA and $19.36 million in revenues.

Measurement of Results Not in Accordance with Generally Accepted Accounting Principles

Earnings before interest, income taxes, depreciation and amortization (EBITDA) is not a measurement of performance as defined by Canadian generally accepted accounting principles, and consequently may not be comparable to similar measurements presented by other companies.

The Company assesses its financial performance based on its EBITDA.

	2004				
	Dairy Products			Grocery	
(in thousands of dollars)	Canada and Other	United States	TOTAL	Products	TOTAL
Operating income	$180,001	$129,337	$309,338	$27,881	$337,219
Depreciation of fixed assets	29,854	31,550	61,404	4,634	66,038
EBITDA	$209,855	$160,887	$370,742	$32,515	$403,257

	2003				
	Dairy Products			Grocery	
(in thousands of dollars)	Canada and Other	United States	TOTAL	Products	TOTAL
Operating income	$169,864	$84,365	$254,229	$27,677	$281,906
Depreciation of fixed assets	29,697	35,704	65,401	5,488	70,889
EBITDA	$199,561	$120,069	$319,630	$33,165	$352,795

2004 Quarterly Financial Information
Consolidated Statements of Earnings

(in thousands of dollars, except per share amounts)	1st Quarter (unaudited)	2nd Quarter (unaudited)	3rd Quarter (unaudited)	4th Quarter (unaudited)	Fiscal 2004 (audited)
Statements of earnings data					
Revenues	$ 816,783	$ 915,540	$ 892,010	$ 945,857	$3,570,190
Cost of sales, selling and administrative expenses	726,118	804,658	796,949	839,208	3,166,933
Earnings before interest, income taxes, depreciation and amortization	90,665	110,882	95,061	106,649	403,257
Margin %	*11.1%*	*12.1%*	*10.7%*	*11.3%*	*11.3%*
Depreciation of fixed assets	16,542	16,436	16,252	16,808	66,038
Operating income	74,123	94,446	78,809	89,841	337,219
Interest on long-term debt	9,598	8,971	8,223	8,000	34,792
Other interest	15	416	272	515	1,218
Earnings before income taxes	64,510	85,059	70,314	81,326	301,209
Income taxes	18,450	26,858	20,276	23,260	88,844
Net earnings	$ 46,060	$ 58,201	$ 50,038	$ 58,066	$ 212,365
Net margin %	*5.6%*	*6.4%*	*5.6%*	*6.1%*	*5.9%*
Per share					
Net earnings					
Basic	$ 0.45	$ 0.56	$ 0.48	$ 0.56	$ 2.05
Diluted	$ 0.44	$ 0.56	$ 0.47	$ 0.56	$ 2.03

2003 Quarterly Financial Information
Consolidated Statements of Earnings

(in thousands of dollars, except per share amounts)	1st Quarter (unaudited)	2nd Quarter (unaudited)	3rd Quarter (unaudited)	4th Quarter (unaudited)	Fiscal 2003 (audited)
Statements of earnings data					
Revenues	$ 873,942	$ 861,763	$ 855,342	$ 807,065	$3,398,112
Cost of sales, selling and administrative expenses	785,429	774,155	767,296	718,437	3,045,317
Earnings before interest, income taxes, depreciation and amortization	88,513	87,608	88,046	88,628	352,795
Margin %	*10.1%*	*10.2%*	*10.3%*	*11.0%*	*10.4%*
Depreciation of fixed assets	17,611	17,743	17,796	17,739	70,889
Operating income	70,902	69,865	70,250	70,889	281,906
Interest on long-term debt	11,461	11,159	10,776	10,276	43,672
Other interest	(40)	(836)	(585)	110	(1,351)
Earnings before income taxes	59,481	59,542	60,059	60,503	239,585
Income taxes	18,158	17,433	17,523	12,743	65,857
Net earnings	$ 41,323	$ 42,109	$ 42,536	$ 47,760	$ 173,728
Net margin %	*4.7%*	*4.9%*	*5.0%*	*5.9%*	*5.1%*
Per share					
Net earnings					
Basic	$ 0.40	$ 0.41	$ 0.41	$ 0.46	$ 1.68
Diluted	$ 0.40	$ 0.40	$ 0.41	$ 0.45	$ 1.66

Summary of the Fourth Quarter Results Ended March 31, 2004

Revenues totalled $945.9 million, an increase of $138.8 million compared to the same period for fiscal 2003. The US Dairy Products Sector accounts for $48.0 million of the increase in revenues. The average selling price per pound of cheese on the US market was up by 27% compared to the same quarter for fiscal 2003, representing an increase of $49.0 million in revenues. US sales volumes for the fourth quarter were up by 15.2% compared to fiscal 2003, representing an increase of $45 million in revenues. Appreciation of the Canadian dollar this last quarter compared to the corresponding period in fiscal 2003, and represents roughly $46 million less revenues. The Canadian and Other Dairy Products Sector drove their revenues up $90.0 million compared to the same period last year. Of this amount, approximately $34 million in revenues comes from our latest acquisition in Argentina, which contributed to revenues during this fourth quarter.

Earnings before interest, income taxes, depreciation and amortization for the fourth quarter increased $18.0 million, closing at $106.6 million compared to $88.6 million in 2003. The increase stems essentially from the US Dairy Products Sector because of significantly higher volumes and the fact that the average selling price per pound of cheese was higher than in fiscal 2003. The Canadian and Other Dairy Products Sector and Grocery Products Sector demonstrated a relatively stable EBITDA compared to the same period one year earlier. However, the Canadian and Other Dairy Products Sector incurred rationalization expenses of $2.7 million related to plant closures.

Compared to the same period last year, depreciation of fixed assets remained relatively stable, and interest on long-term debt decreased by approximately $2 million with respect to repayments on long-term debt made throughout fiscal 2004. The effective tax rate was 28.6% compared to 21.1% for the previous year. A $4.1 million tax benefit was achieved through a transfer pricing agreement reached in the fourth quarter of fiscal 2003 and applicable to Canadian-US intercompany transactions. During the quarter ended March 31, 2004, the Company repaid $31.8 million in bank loans and long-term debt and added $21.5 million in fixed assets. For the same period, the Company paid out $12.4 million in dividends to its shareholders, and cash flows generated by operations amounted to $75.1 million, up 9.3% over the same period last year. Net earnings stood at $58.1 million, up 21.5% from the $47.8 million recorded for the same period one year earlier.

Quarterly Financial Information

During fiscal 2004, some specific circumstances affected the quarterly changes in revenues and earnings before interest, income taxes, depreciation and amortization compared to fiscal 2003.

First, the selling price per pound of cheese on the US market was higher during all quarters, except for the first quarter of 2004. The Canadian dollar was higher during all quarters of 2004 compared to the same periods in fiscal 2003. Sales volumes on the US market were higher during all quarters of 2004, except for the first quarter, compared to 2003. Our Canadian operations continued to grow gradually from quarter to quarter in 2004. Finally, last November's acquisition in Argentina contributed to revenues of the third and fourth quarters of 2004. Quarterly earnings directly reflect the effects of the previously mentioned items.

Analysis of Earnings for the Year Ended March 31, 2003 Compared to March 31, 2002

The Company's **consolidated revenues** for the year ended March 31, 2003 were $3.398 billion, compared to $3.457 billion for the previous fiscal year. The average selling price per pound of cheese on the US market was 21% lower for fiscal 2003 as compared to the previous year, creating a shortfall in revenues of approximately $158 million. Also, our Bakery Division operated exclusively in a snack cake environment in fiscal 2003, unlike fiscal 2002, when it was active in the cookie, fine bread and soup categories for 15 weeks. These operations were transferred to Dare Foods in July 2001. Overall, on a comparable basis, revenues would have been 3.5% higher in fiscal 2003 as compared to the preceding year, reflecting increases in all the divisions of the Company.

During fiscal 2003, **earnings before interest, income taxes, depreciation and amortization (EBITDA)** amounted to $352.8 million, almost the same as the $352.4 million posted for fiscal 2002. Fiscal 2003 was marked by a world dairy-product market that was volatile and depressed. World sales prices of whey protein concentrate fell almost 34% compared to fiscal 2002, while the market for lactose was down nearly 19% in fiscal 2003. These market conditions created a shortfall of approximately $6.5 million in EBITDA. The Canadian Dairy Products Sector showed a 9.6% increase in its EBITDA. In the US Dairy Products Sector, the EBITDA decreased by $13.5 million, despite an increase of approximately 9.5% in sales volumes compared to the previous year. The average selling price per pound of cheese on the US market was 21% lower in fiscal 2003 compared to fiscal 2002. The snack cake category of the Grocery Sector generated a relatively stable EBITDA.

Depreciation expense totalled $70.9 million during the year ended March 31, 2003, compared to $68.1 million for the previous year. This increase primarily reflects the additional depreciation required on new fixed-asset acquisitions made during the year.

Interest expenses fell $10.3 million to $42.3 million for the year ended March 31, 2003, compared to an interest expense of $52.6 million for fiscal 2002. This decrease is mainly due to repayments of $133.9 million on long-term debt and bank loans, combined with the lower interest rates on the Company's Canadian debt throughout fiscal 2003.

Income taxes totalled $65.9 million, for an effective tax rate of 27.5% for the year ended March 31, 2003. For the same period in the previous year, tax expenses were $71.6 million, for an effective tax rate of 30.9%. The decrease in the overall tax rate in fiscal 2003 is due to the fact that a greater portion of the Company's taxable net earnings were generated in Canada and were subject to tax rates lower than in the United States.

Net earnings for the year ended March 31, 2003 totalled $173.7 million ($1.68 per share), up 8.4% over the $160.2 million ($1.56 per share) posted for the previous year. These net earnings take into account an amount of $1.3 million to reflect the Company's recording of stock based compensation.

Cash flows generated by operations totalled $223.5 million for the year ended March 31, 2003, a 12.0% increase over the previous year. This is consistent with the increase in net earnings during 2003 as compared to the previous year.

Outlook

Once again, 2004 posts excellent financial results, while at the same time showing an improved financial foundation. During the year, we made three acquisitions and our Dairy Products Sector generated substantial growth in sales volumes. This fiscal year also enabled the Company to take position with respect to the future of the Bakery Division and, for the very first time, to penetrate markets beyond North America as a manufacturer, bringing us a step closer to our goal of becoming a world class dairy processor.

Since becoming a public company in October 1997, we have made several acquisitions—some large-scale acquisitions, which have made a great impact, and other smaller-scale acquisitions, which are just as important for our development. Moreover, we believe in organic growth through building sales volumes, obtaining new clients and developing new market niches. We believe in increasing net earnings by constantly improving the way we do things—essentially, to continue to outdo ourselves.

Consequently, for the last seven years, we have demonstrated our ability to grow organically and through acquisitions. Each of these years posts a return on average equity of more than 18%, except for fiscal 2001 which experienced a 16% return, for an average of 18.5% over the last seven years.

Our outlook is very positive for fiscal 2005. However, there are circumstances over which we have no control, such as changes in foreign currencies that could have an impact when we translate earnings of our foreign self-sustaining operations into Canadian dollars. Changes in the average selling price per pound of cheese in the US could also have an impact, as was the case during fiscal 2004. These circumstances could have positive or negative effects on earnings.

The effects of these changes aside, fiscal 2005 leaves room for projecting positive sales growth in terms of dollars and volume. We also anticipate growth in EBITDA, net earnings and cash flows. This growth takes each division's objectives into account, but does not take into consideration the impact that future acquisitions could have on earnings.

Saputo will continue to judiciously invest in fixed assets and proceed rigorously to limit its additions to the annual depreciation amount. However, this amount may be exceeded during specific projects, among other things, following an acquisition.

We have a sound balance sheet, with $2.07 billion in assets and a debt bearing interest ratio at 0.39 of shareholders' equity. We have great financial flexibility. Current contractual commitments on bank loans and the senior notes would enable us, if new debts were contracted, to add almost $1 billion in additional debt for acquisitions.

We have all the assets from a financial perspective to enable us to become a world class dairy processor. To achieve this goal, we will continue to reinvest in our development. Our proactive approach with respect to acquisitions should be beneficial to attaining our objectives.

Management's Statement of Responsibility for Financial Reporting

Management is responsible for the preparation and presentation of the consolidated financial statements and the financial information presented in this annual report. This responsibility includes the selection of accounting policies and practices and making judgments and estimates necessary to prepare the consolidated financial statements in accordance with generally accepted accounting principles.

Management has also prepared the financial information presented elsewhere in this annual report and has ensured that it is consistent with the consolidated financial statements.

Management maintains systems of internal control designed to provide reasonable assurance that assets are safeguarded and that relevant and reliable financial information is being produced.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is responsible for reviewing and approving the consolidated financial statements. The Board of Directors carries out this responsibility principally through its Audit Committee, which is comprised solely of unrelated directors. The Audit Committee meets periodically with management and the external auditors to discuss internal controls, auditing matters and financial reporting issues. It also reviews the annual report, the consolidated financial statements and the external auditors' report. The Audit Committee recommends the external auditors for appointment by the shareholders. The external auditors have unrestricted access to the Audit Committee. The consolidated financial statements have been audited by the external auditors Deloitte & Touche, whose report follows.

Lino Saputo, Jr.
President and
Chief Executive Officer

Louis-Philippe Carrière, CA
Executive Vice President,
Finance and Administration,
and Secretary

Auditors' Report to the Shareholders of Saputo Inc.

We have audited the consolidated balance sheets of Saputo Inc. as at March 31, 2004 and 2003 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants
Laval, Québec
May 21, 2004

Consolidated Statements of Earnings

Years ended March 31 (in thousands of dollars, except per share amounts)	2004	2003
Revenues	$ 3,570,190	$ 3,398,112
Cost of sales, selling and administrative expenses	3,166,933	3,045,317
Earnings before interest, depreciation and income taxes	403,257	352,795
Depreciation of fixed assets (Note 3)	66,038	70,889
Operating income	337,219	281,906
Interest on long-term debt	34,792	43,672
Other interest (Note 10)	1,218	(1,351)
Earnings before income taxes	301,209	239,585
Income taxes (Note 11)	88,844	65,857
Net earnings	$ 212,365	$ 173,728
Earnings per share (Note 12)		
Net earnings		
Basic	$ 2.05	$ 1.68
Diluted	$ 2.03	$ 1.66

Consolidated Statements of Retained Earnings

Years ended March 31 (in thousands of dollars)	2004	2003
Retained earnings, beginning of year	$ 546,667	$ 409,648
Net earnings	212,365	173,728
Dividends	(47,661)	(36,709)
Retained earnings, end of year	$ 711,371	$ 546,667

Consolidated Balance Sheets

As at March 31 (in thousands of dollars)	2004	2003
ASSETS		
Current assets		
Cash	$ 7,874	$ -
Receivables	287,012	239,366
Inventories	420,660	392,852
Income taxes	9,348	24,290
Future income taxes	14,877	12,854
Prepaid expenses and other assets	13,838	18,383
	753,609	687,745
Portfolio investment (Note 2)	53,991	55,991
Fixed assets (Note 3)	661,183	627,841
Goodwill (Note 4)	524,856	550,630
Trademarks (Note 4)	26,076	-
Other assets (Note 5)	46,422	39,618
Future income taxes	3,411	8,861
	$ 2,069,548	$ 1,970,686
LIABILITIES		
Current liabilities		
Bank overdraft	$ -	$ 1,236
Bank loans (Note 6)	82,367	17,592
Accounts payable and accrued liabilities	295,124	245,188
Income taxes	26,020	44,403
Future income taxes	8,927	-
Current portion of long-term debt (Note 7)	43,969	110,000
	456,407	418,419
Long-term debt (Note 7)	327,942	411,135
Employee future benefits (Note 14)	13,941	13,937
Future income taxes	114,429	110,691
	912,719	954,182
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	469,262	464,331
Contributed surplus (Note 9)	4,411	1,475
Retained earnings	711,371	546,667
Foreign currency translation adjustment	(28,215)	4,031
	1,156,829	1,016,504
	$ 2,069,548	$ 1,970,686

On behalf of the Board

Lino Saputo, Director

Louis A. Tanguay, Director

Consolidated Statements of Cash Flows

Years ended March 31 (in thousands of dollars)	2004	2003
Cash flows related to the following activities:		
Operating		
Net earnings	$ 212,365	$ 173,728
Items not affecting cash		
Stock based compensation	2,936	1,475
Depreciation of fixed assets	66,038	70,889
Gain on disposal of fixed assets	(680)	(404)
Future income taxes	20,630	4,435
	301,289	250,123
Changes in non-cash operating working capital items	(13,717)	(26,591)
	287,572	223,532
Investing		
Business acquisitions (Note 13)	(99,994)	-
Portfolio investment	2,000	-
Additions to fixed assets	(90,446)	(70,591)
Proceeds on disposal of fixed assets	5,926	4,060
Other assets	(4,677)	3,614
	(187,191)	(62,917)
Financing		
Bank loans	63,945	(11,315)
Repayment of long-term debt	(110,099)	(122,565)
Issuance of share capital for a cash consideration	4,931	4,509
Employee future benefits	4	990
Dividends	(47,661)	(36,709)
	(88,880)	(165,090)
Increase (decrease) in cash	11,501	(4,475)
Effect of exchange rate changes on cash	(2,391)	(1,613)
(Bank overdraft) cash, beginning of year	(1,236)	4,852
Cash (bank overdraft), end of year	$ 7,874	$ (1,236)
Supplemental information		
Interest paid	$ 33,889	$ 38,805
Income taxes paid	$ 70,095	$ 43,079

Notes to the Consolidated Financial Statements

Years ended March 31

(tabular amounts are in thousands of dollars except information on options)

1. Significant Accounting Policies

The financial statements have been prepared in accordance with generally accepted accounting principles used in Canada and include the following significant accounting policies:

Use of Estimates

In the course of the preparation of financial statements in conformity with generally accepted accounting principles, management must make estimates such as the valuation of goodwill, future income taxes and certain actuarial and economic assumptions used in determining defined benefit pension costs, accrued pension benefit obligations and pension plan assets, and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the revenues and expenses for the period. Actual results could differ from these estimates.

Consolidated Financial Statements

Investments over which the Company has effective control are consolidated. The interest in the joint venture that is jointly controlled is accounted for by the proportionate consolidation method. The operating results of acquired businesses, from their respective acquisition dates, are included in the consolidated statements of earnings.

Inventories

Finished goods and goods in process are valued at the lower of average cost and net realizable value. Raw materials are valued at the lower of cost and replacement value, cost being determined under the first-in, first-out method.

Income Taxes

The Company follows the liability method of income tax allocation. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates that will be in effect when the differences are expected to reverse.

Fixed Assets

Fixed assets are stated at cost and are depreciated using the straight-line method over their estimated useful lives or by using the following methods:

Buildings	15 years to 40 years
Furniture, machinery and equipment	3 years to 15 years
Rolling stock	5 years to 10 years or based on kilometers traveled

Goodwill and Trademarks

Goodwill and trademarks are not amortized however they are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the assets might be impaired. The carrying values of goodwill and trademarks are compared with their respective fair values, and an impairment loss is recognized for the excess, if any.

New Accounting Policy

On May 1, 2003, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants regarding "Disposal of long-lived assets and discontinued operations", which establishe standards for the recognition, measurement, presentation and disclosure of the disposal of long-lived assets and discontinued operations. This new standard was applied prospectively. (See Note 3 for required disclosures.)

1. Significant Accounting Policies (cont'd)

Employee Future Benefits

The cost of pension and other post-retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on services and using estimates of expected return on plan assets, rates of compensation increase, retirement ages of employees and expected health care costs and other post-retirement benefits. Current service costs are expensed in the year. In accordance with generally accepted accounting principles, past service costs and the excess of the net actuarial gains or losses related to defined pension plans over 10% of the greater of the benefit obligation or fair value of plan assets are amortized over the expected average remaining service period of active employees to receive benefits under the plans. For valuing defined benefits pension plan assets, the Company uses market values.

Revenue Recognition

The Company recognizes revenue, net of sales incentives, upon shipment of goods when the title and risk of loss are transferred to customers.

Foreign Currency Translation

The balance sheet accounts of the self-sustaining companies operating in the United States and Argentina were translated into Canadian dollars using the exchange rates at the balance sheet dates. Statement of earnings accounts were translated into Canadian dollars using the average monthly exchange rates in effect during the fiscal years. The foreign currency translation adjustment account presented in shareholders' equity represents accumulated foreign currency gains or losses on the Company's net investments in self-sustaining companies operating in the United States and Argentina. The change in the foreign currency translation account during the year ended March 31, 2004 principally resulted from the increase in value of the Canadian dollar as compared to the US dollar.

Foreign currency accounts of Canadian companies were translated into Canadian dollars using the exchange rates at the end of the year for monetary assets and liabilities and the prevailing exchange rates at the time of transactions for income and expenses. Gains or losses resulting from this translation are included in the statement of earnings.

	2004	2003
Foreign currency gain	$ 315	$ 383

Stock Based Compensation

The Company adopted prospectively the Canadian Institute of Chartered Accountants recommendations on stock based compensation and other stock based payments, effective April 1, 2002. The use of the fair value based method of accounting is used to expense stock based compensation awards. This method consists of recording compensation cost to earnings over the vesting period of options granted. When stock options are exercised, any consideration paid by employees and the related compensation expense recorded as contributed surplus are credited to share capital.

2. Portfolio Investment

	2004	2003
21% share capital interest in Dare Holdings Ltd.	$ 53,991	$ 55,991

The portfolio investment is recorded at cost less the excess of dividends received over the Company's share in accumulated earnings.

The dividend of $2,000,000 received during the year was accounted for as a reduction of the cost of the investment and the $2,000,000 dividend received in 2003 was included in revenues.

3. Fixed Assets

	2004			2003		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Land	$ 33,932	$ -	$ 33,932	$ 33,050	$ -	$ 33,050
Buildings	253,394	56,013	197,381	237,627	48,158	189,469
Furniture, machinery and equipment	677,945	258,036	419,909	634,027	233,923	400,104
Rolling stock	10,714	4,375	6,339	8,785	3,567	5,218
Held for sale	3,622	-	3,622	-	-	-
	$ 979,607	$ 318,424	$ 661,183	$ 913,489	$ 285,648	$ 627,841

Fixed assets held for sale represent mainly machinery, equipment and buildings of the Canadian Dairy products sector that will be disposed of as a result of certain plant closures. A $1,000,000 write-down to fair value of these assets was recorded during the year. This charge is included in depreciation of fixed assets.

4. Goodwill and Trademarks

	2004			2003		
	Dairy products sector	Grocery products sector	Total	Dairy products sector	Grocery products sector	Total
Goodwill						
Balance, beginning of year	$ 386,117	$ 164,513	$ 550,630	$ 407,862	$ 164,513	$ 572,375
Foreign currency translation adjustment	(27,123)	-	(27,123)	(21,745)	-	(21,745)
Business acquisitions (Note 13)	1,349	-	1,349	-	-	-
Balance, end of year	$ 360,343	$ 164,513	$ 524,856	$ 386,117	$ 164,513	$ 550,630
Trademarks (Note 13)						
Business acquisitions	$ 27,330	$ -	$ 27,330	$ -	$ -	$ -
Foreign currency translation adjustment	(1,254)	-	(1,254)	-	-	-
	$ 26,076	$ -	$ 26,076	$ -	$ -	$ -

5. Other Assets

	2004	2003
Net accrued pension plan asset	$ 37,517	$ 29,553
Other	8,905	10,065
	$ 46,422	$ 39,618

6. Bank Loans

The Company has available short-term bank credit facilities providing for bank loans up to a maximum of approximately $241,000,000. These bank loans are available in Canadian dollars or the equivalent in other currencies and bear interest at rates based on lenders' prime rates plus a maximum of 0.6% or LIBOR or bankers' acceptances rate plus 0.55% up to a maximum of 1.6%, depending on the interest-bearing debt to the earnings before interest, depreciation and amortization and income taxes ratio of the Company.

7. Long-Term Debt

	2004	2003
Term bank loan, available in the form of bank advances or bankers' acceptances, repayable by quarterly variable instalments until December 2004, bearing interest at fluctuating rates based on prime rate plus a maximum of 0.6% and bankers' acceptances rates plus 0.55% up to a maximum of 1.6%, depending on the interest-bearing debt to the earnings before interest, depreciation and amortization and income taxes ratio of the Company. As at March 31, 2004, the term bank loan is comprised of advances of $1,170,000 ($770,000 in 2003) and bankers' acceptances of $42,700,000 ($153,100,000 in 2003)	$ 43,870	$ 153,870
Senior notes		
7.97%, due in November 2006 (US$30,000,000)	39,339	44,034
8.12%, due in November 2009 (US$170,000,000)	222,921	249,526
8.41%, due in November 2014 (US$50,000,000)	65,565	73,390
Other loans, repayable up to 2008 in annual variable instalments	216	315
	371,911	521,135
Current portion	43,969	110,000
	$ 327,942	$ 411,135

Estimated principal payments required in future years are as follows:

2005	$ 43,969
2006	50
2007	39,389
2008	17
2009	-
2010 and subsequent years	288,486
	$ 371,911

8. Share Capital

Authorized

The authorized share capital of the Company consists of an unlimited number of common and preferred shares. The common shares are voting and participating. The preferred shares may be issued in one or more series, the terms and privileges of each series to be determined at the time of their creation.

	2004	2003
Issued		
103,777,730 common shares (103,460,005 in 2003)	$ 469,262	$ 464,331

317,725 common shares for an amount of $4,931,000 were issued during the year ended March 31, 2004 pursuant to the share option plan. 275,558 common shares for an amount of $4,509,000 were issued during the year ended March 31, 2003 pursuant to the share option plan.

Share Option Plan

The Company established a share option plan to allow for the purchase of common shares by key employees, officers and directors of the Company. The total number of common shares which may be issued pursuant to this plan cannot exceed 14,000,000 common shares. Options may be exercised at a price equal to the closing quoted value of the shares on the day preceding the grant date. The options vest at 20% per year and expire ten years from the grant date.

8. Share Capital (cont'd)

Options issued and outstanding as at the year-ends are as follows:

		2004		2003	
Granting period	Exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
1998	$8.50	125,249	$ 8.50	185,649	$ 8.50
1999	from $16.13 to $18.75	226,180	$ 18.28	298,347	$ 18.29
2000	$19.70	400,164	$ 19.70	445,299	$ 19.70
2001	$13.50	793,069	$ 13.50	884,116	$ 13.50
2002	from $19.00 to $23.00	994,783	$ 19.13	1,060,640	$ 19.12
2003	$30.35	891,072	$ 30.35	910,893	$ 30.35
2004	$22.50	1,315,063	$ 22.50	-	$ -
		4,745,580	$ 20.96	3,784,944	$ 19.99
Options exercisable at year-end		1,566,785	$ 18.12	1,188,048	$ 13.44

Changes in the number of options are as follows:

	2004		2003	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at beginning of year	3,784,944	$ 19.99	3,258,967	$ 16.69
Options granted	1,338,396	$ 22.50	934,965	$ 30.35
Options exercised	(317,725)	$ 15.52	(275,558)	$ 16.36
Options cancelled	(60,035)	$ 23.31	(133,430)	$ 19.40
Balance at end of year	4,745,580	$ 20.96	3,784,944	$ 19.99

As disclosed in Note 1, the Company began prospectively expensing the fair value of stock options granted since April 1, 2002. The fair value of share purchase options awarded was estimated at $6.31 per option ($8.98 in 2003), using the Black-Scholes option pricing model with the following assumptions:

	2004	2003
Risk-free interest rate:	4.9%	5.0%
Expected life of options:	7 1/2 years	7 1/2 years
Volatility:	27%	20%
Dividend rate:	1.7%	1.4%

The exercise price of these options is $22.50 ($30.35 in 2003), which corresponds to the closing quoted value of the shares on the day preceding the grant date.

A compensation expense of $2,936,000 ($2,571,000 after income taxes) for stock options granted during the year was recorded in the statement of earnings for the year ended March 31, 2004 and $1,475,000 ($1,310,000 after income taxes) was recorded for the year ended March 31, 2003. The effect of this expense on basic and diluted earnings per share was $0.025 for the year ended March 31, 2004, and $0.013 for the year ended March 31, 2003.

Options to purchase 984,055 common shares at a price of $33.05 were also granted on April 1, 2004.

9. Contributed Surplus

	2004	2003
Contributed surplus, beginning of year	$ 1,475	$ -
Stock based compensation	2,936	1,475
Contributed surplus, end of year	$ 4,411	$ 1,475

10. Other Interest

	2004	2003
Expense	$ 1,586	$ 726
Income	(368)	(2,077)
	$ 1,218	$ (1,351)

11. Income Taxes

The provision for income taxes is comprised of the following:

	2004	2003
Current income taxes	$ 68,214	$ 61,422
Future income taxes	20,630	4,435
	$ 88,844	$ 65,857

Reconciliation of income taxes, calculated using statutory Canadian income tax rates, to the income tax provision presented in the statement of earnings:

	2004	2003
Income taxes, calculated using Canadian statutory income tax rates	$ 101,454	$ 83,200
Adjustments resulting from the following:		
Manufacturing and processing credit	(4,483)	(7,246)
Non-taxable dividend from the portfolio investment	-	(791)
Effect of tax rates of American subsidiaries	4,442	612
Changes in tax laws and rates	(1)	(2,728)
Utilization of tax benefit not previously recognized	(3,501)	-
Other	(9,067)	(7,190)
Provision for income taxes	$ 88,844	$ 65,857

The tax effects of temporary differences that give rise to significant portions of the future tax asset and liability are as follows:

	2004	2003
Future income taxes asset		
Accounts payable and accrued liabilities	$ 5,773	$ 5,496
Income tax losses	2,915	4,570
Other	2,306	4,879
	$ 10,994	$ 14,945
Future income taxes liability		
Inventories	$ 6,680	$ -
Fixed assets	94,624	92,064
Net assets of pension plans	7,259	4,999
Other assets	993	557
Portfolio investment	6,506	6,301
	$ 116,062	$ 103,921
Classified in the financial statements as:		
Current future income taxes asset	$ 14,877	$ 12,854
Long-term future income taxes asset	3,411	8,861
Current future income tax liability	(8,927)	-
Long-term future income taxes liability	(114,429)	(110,691)
Net future income taxes liability	$(105,068)	$ (88,976)

11. Income Taxes (cont'd)

Potential Tax Benefits

As of March 31, 2004, the Company has income tax losses of approximately $58,511,000, which may be used to reduce future years' taxable income of its subsidiaries in Argentina. The benefits resulting from these tax losses have not been recognized in the accounts. These losses expire as follows:

2005	$ 10,584,000
2006	$ 9,281,000
2007	$ 12,568,000
2008	$ 26,078,000

12. Earnings per Share

Basic earnings per share have been calculated using the weighted average number of common shares outstanding during each fiscal year: 103,589,621 shares in 2004 and 103,380,203 in 2003.

Diluted earnings per share for the year ended March 31, 2004 have been calculated using 104,817,272 common shares, being the sum of the weighted average number of outstanding shares as at March 31, 2004 (103,589,621 shares) and the potentially dilutive shares that could be issued following the exercise of options granted under the Company's share option plan (1,227,651 shares).

Diluted earnings per share for the year ended March 31, 2003 have been calculated using 104,454,043 common shares, being the sum of the weighted average number of outstanding shares as at March 31, 2003 (103,380,203 shares) and the potentially dilutive shares that could be issued following the exercise of options granted under the Company's share option plan (1,073,840 shares).

13. Business Acquisitions

The Company acquired on May 1, 2003 a 51% voting share interest in Gallo Protein 2003, LLC (a joint venture) for a cash consideration of $3,546,000, and acquired on May 23, 2003 the commercial activities of the *Treasure Cave* and *Nauvoo* brands for a cash consideration of $36,510,000. Relating to the Gallo Protein acquisition, the fair values attributed to the assets acquired were $812,000 to working capital, $1,385,000 to fixed assets, and $1,349,000 to goodwill. The fair values attributed to the assets acquired for the commercial activities of the *Treasure Cave* and *Nauvoo* brands were $5,361,000 to working capital, $3,819,000 to fixed assets and $27,330,000 to trademarks. Gallo Protein 2003, LLC operates in the United States and manufactures and markets whey protein isolates and related products from whey protein concentrate. The commercial activities of the *Treasure Cave* and *Nauvoo* brands are related to the manufacturing and commercialization of blue cheese in the United States.

On November 28, 2003, the Company completed the acquisition of 100% of the voting shares of Molfino Hermanos S.A. (Molfino). Molfino is a cheese and dairy products manufacturer operating in Argentina. Total acquisition costs for Molfino amounted to $66,162,000 including cash of $4,395,000 and related acquisition costs to be paid of $1,829,000 for a net consideration paid of $59,938,000. The fair values attributed to the assets acquired were $40,092,000 to fixed assets, $2,166,000 to other assets, and the remainder of $19,509,000 to working capital. The operating results of Molfino are included in the Canada and other Dairy products sector. The allocation of the purchase price is not completed because the Company is still in the process of finalizing the integration plan of this business. The final allocation will be completed in the next fiscal year.

14. Employee Pension and Other Benefit Plans

The Company provides defined benefit and defined contribution pension plans as well as other benefit plans such as health insurance, life insurance and dental plans to eligible employees and retired employees.

Under the terms of the defined benefit pension plans, pensions are based on years of service and the average salary of the last employment years or the career salary. Contributions are paid by employees and contributions by the Company are based on recommendations from independent actuaries.

The defined contribution pension plans entitle participating employees to an annual contribution giving right to a pension.

Plan assets are principally comprised of shares of Canadian and foreign companies, mutual funds and fixed income investments.

Financial position of the plans

	2004		2003	
	Defined benefit pension plans	Other benefit plans	Defined benefit pension plans	Other benefit plans
Changes in fair value of plan assets				
Fair value of plan assets at beginning of year	$ 142,145	$ -	$ 163,003	$ -
Acquisitions during the year	-	-	893	-
Actual return on plan assets	15,914	-	(9,709)	-
Employer contributions	5,548	1,061	698	777
Employee contributions	1,129	111	1,129	71
Benefits paid	(11,767)	(1,172)	(13,684)	(848)
Foreign currency loss	(239)	-	(185)	-
Fair value of plan assets at end of year	152,730	-	142,145	-
Changes in accrued benefits obligation				
Benefits obligation at beginning of year	154,890	20,683	154,735	19,175
Acquisitions during the year	-	-	893	-
Current service cost	4,188	914	4,125	799
Interest cost	10,187	64	10,008	276
Benefits paid	(11,767)	(1,172)	(13,684)	(848)
Actuarial (gains) losses	8,295	(3,213)	(940)	1,281
Amendments and divestitures	-	338	-	-
Foreign currency gain	(333)	-	(247)	-
Benefits obligation at end of year	165,460	17,614	154,890	20,683
Deficit	(12,730)	(17,614)	(12,745)	(20,683)
Unamortized actuarial losses	60,797	2,260	55,715	2,610
Unamortized past service cost	761	(344)	802	(456)
Foreign currency loss	-	-	(1,146)	-
Unamortized transitional obligation	(12,215)	1,757	(13,370)	4,592
Asset (liability) as at the measurement date	36,613	(13,941)	29,256	(13,937)
Employer contributions made from the measurement date to the end of the year	904	-	297	-
Net asset (liability) recognized in the balance sheet	$ 37,517	$ (13,941)	$ 29,553	$ (13,937)

The net accrued benefit asset is included in other assets presented in the balance sheet (Note 5).

14. Employee Pension and Other Benefit Plans (cont'd)

	2004		2003	
	Pension plans	Other benefit plans	Pension plans	Other benefit plans
Employee benefit plans expense				
Defined benefit plans				
Current service cost	$ 3,058	$ 584	$ 3,025	$ 694
Interest cost	10,187	1,216	10,058	1,341
Expected return on plan assets	(13,522)	-	(14,010)	-
Amortization of transitional obligation	(1,156)	377	(1,155)	460
Amortization of past service cost	91	(50)	89	37
Curtailment of plans	(1,146)	-	-	-
Amortization of actuarial gain	681	(305)	70	(13)
Provision for decrease in value	-	-	67	-
	(1,807)	1,822	(1,856)	2,519
Defined contribution plans	8,712	-	8,531	-
	$ 6,905	$ 1,822	$ 6,675	$ 2,519
Weighted average assumptions				
Discount rate of obligation	6.25%	6.25%	6.75%	6.75%
Expected long-term rate of return on plan assets	7.90%	N/A	7.90%	N/A
Rate of compensation increase	3.50%	3.50%	3.50%	3.50%

For measurement purposes, a 5.5% to 7% annual rate of increase was used for health, life insurance and dental plan costs for the year 2005 and this rate is assumed to decrease gradually to 5.3% in 2007 and remain at that level thereafter.

15. Commitments and Contingencies

The Company carries some of its operations in leased premises and has also entered into lease agreements for equipment and rolling stock. The minimum annual lease payments required are as follows:

2005	$ 16,585
2006	8,941
2007	7,471
2008	5,093
2009	4,392
Subsequent years	3,600
	$ 46,082

The Company is defendant to certain claims arising from the normal course of its business. The Company believes that the final resolution of these claims will not have a material adverse effect on its earnings or financial position.

The Company from time to time enters into agreements in the normal course of its business, such as service arrangements and leases, and in connection with business or asset acquisitions or dispositions, which agreements by their nature may provide for indemnifications of counterparties. These indemnification provisions may be in connection with breach of representations and warranties and for future claims for certain liabilities, including liabilities related to tax and environmental matters. The terms of these indemnification provisions vary in duration. Given the nature of such indemnifications, the Company is unable to reasonably estimate its maximum potential liability under these agreements.

16. Financial Instruments and Risk Management

a) Fair Value of Financial Instruments

The fair value of cash, receivables, bank overdraft, bank loans, accounts payable and accrued liabilities corresponds to their carrying value due to their short-term maturity.

The fair value of long-term debt, estimated by discounting expected cash flows at rates currently offered to the Company for debts of the same remaining maturities and conditions, is $445,133,000 ($604,385,000 in 2003).

b) Credit Risk

The Company grants credit to its customers in the normal course of business. Credit valuations are performed on a regular basis and the financial statements take into account an allowance for bad debts. The Company does not have any credit risk concentration.

c) Interest Rate Risk

The short-term bank credit facilities and long-term bank loans bear interest at fluctuating rates.

The Company occasionally enters into interest swap contracts to hedge against exposures to increases in interest rates. As at March 31, 2004, the Company had entered into an interest swap contract at a rate of 5.08% covering $34,700,000 of long-term debt. This contract expires in December 2004. As at March 31, 2004, an amount of $556,000 would be necessary to settle this contract.

d) Currency Risk

In the normal course of Canadian operations, the Company enters into certain foreign currency transactions. The Company manages its currency risks by occasionally entering into foreign currency contracts. The Company had outstanding foreign currency contracts as at the balance sheet date for the purchase of 500,000 euros.

The Company realizes approximately 35% of its sales in the United States and is therefore exposed to currency exchange fluctuations.

The cash flows from US operations constitute a natural hedge against the exchange risk related to debt expressed in US dollars.

e) Price Commodities Risk

The Company occasionally enters into hedging contracts to hedge against fluctuations on the price of certain commodities. Outstanding contracts as at the balance sheet date had a fair value of $2,600,000.

17. Segmented Information

The Dairy products sector principally includes the production and distribution of cheeses and fluid milk. The activities of this sector are carried out in Canada, in Argentina and the United States.

The Grocery products sector consists of the production and marketing of snack cakes. Total assets of this sector includes the portfolio investment.

These operating sectors are managed separately because each sector represents a strategic business unit that offers different products and serves different markets. The Company measures performance based on geographic operating income and sector operating income on a stand alone basis.

The accounting policies of the sectors are the same as those described in Note 1 relating to significant accounting policies. The Company does not make any intersector sales.

17. Segmented Information (cont'd)

Information on operating sectors

	2004			2003		
	Canada and other	United States	Total	Canada and other	United States	Total
Revenues						
Dairy products	$2,161,852	$1,240,954	$3,402,806	$2,017,383	$1,212,810	$3,230,193
Grocery products	167,384	-	167,384	167,919	-	167,919
	$2,329,236	$1,240,954	$3,570,190	$2,185,302	$1,212,810	$3,398,112
Earnings before interest, depreciation and income taxes						
Dairy products	$ 209,855	$160,887	$ 370,742	$ 199,561	$ 120,069	$ 319,630
Grocery products	32,515	-	32,515	33,165	-	33,165
	$ 242,370	$160,887	$ 403,257	$ 232,726	$ 120,069	$ 352,795
Depreciation of fixed assets						
Dairy products	$ 29,854	$ 31,550	$ 61,404	$ 29,697	$ 35,704	$ 65,401
Grocery products	4,634	-	4,634	5,488	-	5,488
	$ 34,488	$ 31,550	$ 66,038	$ 35,185	$ 35,704	$ 70,889
Operating income						
Dairy products	$ 180,001	$129,337	$ 309,338	$ 169,864	$ 84,365	$ 254,229
Grocery products	27,881	-	27,881	27,677	-	27,677
	$ 207,882	$129,337	337,219	$ 197,541	$ 84,365	281,906
Interest			36,010			42,321
Earnings before income taxes			301,209			239,585
Income taxes			88,844			65,857
Net earnings			$ 212,365			$ 173,728

Geographic information

	2004				2003		
	Canada	Argentina	United States	Total	Canada	United States	Total
Revenues							
Dairy products	$2,117,390	$ 44,462	$1,240,954	$3,402,806	$2,017,383	$1,212,810	$3,230,193
Grocery products	167,384	-	-	167,384	167,919	-	167,919
	$2,284,774	$ 44,462	$1,240,954	$3,570,190	$2,185,302	$1,212,810	$3,398,112
Total assets							
Dairy products	$ 932,552	$ 89,138	$ 756,236	$1,777,926	$ 861,176	$ 824,759	$1,685,935
Grocery products	291,622	-	-	291,622	284,751	-	284,751
	$1,224,174	$ 89,138	$ 756,236	$2,069,548	$1,145,927	$ 824,759	$1,970,686
Net book value of fixed assets							
Dairy products	$ 305,134	$ 41,805	$ 274,368	$ 621,307	$ 276,036	$ 312,164	$ 588,200
Grocery products	39,876	-	-	39,876	39,641	-	39,641
	$ 345,010	$ 41,805	$ 274,368	$ 661,183	$ 315,677	$ 312,164	$ 627,841
Additions to fixed assets							
Dairy products	$ 63,713	$ 315	$ 21,295	$ 85,323	$ 42,694	$ 22,080	$ 64,774
Grocery products	5,123	-	-	5,123	5,817	-	5,817
	$ 68,836	$ 315	$ 21,295	$ 90,446	$ 48,511	$ 22,080	$ 70,591
Goodwill							
Dairy products	$ 132,698	$ -	$ 227,645	$ 360,343	$ 132,698	$ 253,419	$ 386,117
Grocery products	164,513	-	-	164,513	164,513	-	164,513
	$ 297,211	$ -	$ 227,645	$ 524,856	$ 297,211	$ 253,419	$ 550,630

Social Responsibility

In the beginning, back in 1954, Saputo had only three employees. Fifty years later, it now employs 7,500 people, thereby contributing to economic and social life in different regions. The Company plays a key role in the food industry. First and foremost, Saputo is a dairy processor and therefore is an important link in the supply chain between milk producers, clients and consumers. Our activities in the bakery sector also serve to strengthen our role as a major player in the food industry. Due to our responsibilities as a food manufacturer, we adhere to the highest quality standards. By emphasizing innovation and research and development, we help promote and increase the consumption of certain product categories in order to benefit the entire food industry as well as our business partners.

The capital investments that we continue to make emphasize our participation in economic development.

By continuing with our business development efforts, we contribute to the development of all our employees. One of our challenges, in terms of human resources, is to ensure that our employees benefit from a stimulating and motivating work environment that enables them to realize their potential on a daily basis. We are proud to offer employees careers within the Company by encouraging internal promotions, among other things.

We also encourage employees to become true leaders in their communities. Our employees often act as local or regional representatives of the Company by combining their passion at work with their commitment to various social causes and economic and athletic activities.

As a major player in the food industry, we attach great importance to supporting food banks. Among other things, we are intent on providing food on a daily basis to underprivileged children by supporting causes such as the Club des petits déjeuners du Québec.

We also support the volunteer work of some of our employees by donating cash or goods in the wake of tragedies such as the forest fires that caused extensive devastation in British Columbia last year.

Saputo also supports certain universities that offer agriculture programs or programs related to the dairy industry. The Company therefore helps support research in fields related to our fields of activity.

Through sponsorships, we support various causes related, among other things, to family and athletic activities, either at the amateur or professional level. For example, we supported the Montréal and Vancouver marathons last year. We also sponsored the Québec soccer federation.

Our partnership with the Fondation de l'athlète d'excellence du Québec is a cause that is truly important to us. The Fondation supports, by providing academic sponsorships, athletes from Québec and the rest of Canada who distinguish themselves on the national and international scenes. Through this agreement, we support several athletes, including:

- Dasha Gaiazova, who ranked 16^{th} in the 5 km classic at the 2003 Junior World Cross Country Skiing Championships.
- Martin Gilbert, a young cyclist who represented Canada during the World Road Cycling Championships held in Hamilton in October 2003.
- Blythe Hartley, the bronze medallist at the 2003 World Diving Championships. Blythe will be competing in the Olympic Games in Athens this summer.
- Alexandre Jeltkov, who ranked 6^{th} in the high bar competition at the 2003 World Gymnastics Championships. Alexandre will be going to the Olympics in Athens this summer.
- Audrey Lacroix, the gold medallist in the 200 m butterfly at the 2003 Panamerican Games.
- Jana Salat, who ranked 4^{th} at the 2003 World Water Polo Championships. Jana will be going to the Olympics in Athens this summer.
- Giulio Zardo, the 2004 bobsleigh world champion.

Saputo also supports the Montréal Impact, a not-for-profit team in the professional soccer A-league playing both in Canada and the United States. We also sponsor the Montréal Canadiens as the official sponsor of the Saputo Future Canadiens Fan Club. Saputo is a sponsor of the Rocketsports Racing team, which competes in the Champ Car World series. Races in this series are held in Canada, the United States, Mexico, Australia and Korea. The team car is driven by Alex Tagliani, who hails from the greater Montréal area.

FAN CLUB
FUTURS CANADIENS
Saputo

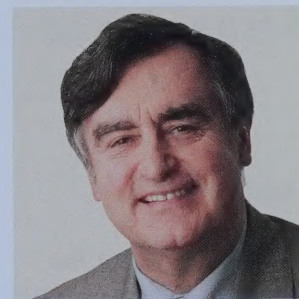
Club des petits déjeuners du Québec

Corporate Management

From left to right:
Randy Williamson, President and Chief Operating Officer, Dairy Products Division (Canada)
Dino Dello Sbarba, President and Chief Operating Officer, Cheese Division (USA)
Pierre Leroux, Executive Vice President, Human Resources and Corporate Affairs
Louis-Philippe Carrière, Executive Vice President, Finance and Administration
Lino Saputo, Jr., President and Chief Executive Officer
Lino Saputo, Chairman of the Board

André Bérard
Corporate Director

Claude Blanchet
Corporate Director



Lucien Bouchard
Senior Partner
Davies Ward Phillips & Vineberg LLP

Pierre Bourgie
President and Chief Executive Officer
Société Financière Bourgie Inc.

Frank A. Dottori
President and Chief Executive Officer
Tembec Inc.

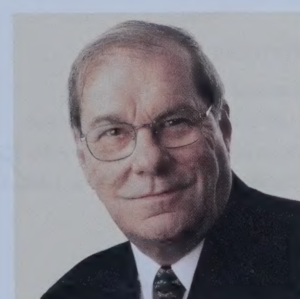
Jean Gaulin
Corporate Director

Caterina Monticciolo, CA
President
Julvest Capital Inc.

Lino Saputo
Chairman of the Board
Saputo Inc.

Lino Saputo, Jr.
President and Chief Executive Officer
Saputo Inc.

Patricia Saputo, CA, FP
President
Pasa Holdings Inc.



Louis A. Tanguay
Corporate Director

Board of Directors

Shareholder Information

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General Annual Meeting of Shareholders

Wednesday, August 4, 2004 at 11 a.m.
Laval Room, Hotel Sheraton Laval
2440 Autoroute des Laurentides
Laval, Québec, Canada H7T 1X5

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Symbol: SAP

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Montréal, Québec, Canada H3B 2G7
Telephone: 514.871.7171 or 1.800.341.1419
Fax: 514.871.7442

External Auditors

Deloitte & Touche, Laval, Québec

Dividend Policy

Saputo Inc. declares quarterly cash dividends on common shares in an amount of $0.12 per share, representing a yearly dividend of $0.48 per share. The balance of corporate earnings is reinvested to finance the growth of the Company's business.

The Board of Directors may review the Company's dividend policy from time to time based on financial position, operating results, capital requirements and such other factors as are deemed relevant by the Board at its sole discretion.

Un exemplaire français vous sera expédié sur demande adressée à :
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